

Incorporation of Hibah as a Catalyst for Channelling Profits and Compensations in Islamic Transactions

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Abstract : Shariah (the Islamic law) sanctions a plethora of profit-sharing arrangements for financial transactions. However, when it comes to the practice of Islamic banking, it is felt by the scholars and practitioners that many of these arrangements often fail to compensate different parties of a financial transaction compared to conventional banking, due to the Riba (interest / usury) element. This issue is caused by the parties inability to codify these compensations in any contract so as to avoid Riba. Here, hibah (gift) may be regarded as one of the solutions. In essence, hibah is a unilateral charity contract where a party voluntarily gives away something to another party without any counter value. This paper attempts to analyse theoretical and practical aspects of hibah from the perspective of Islamic law, enunciating its legality and detailing its allowance in Islamic banking. It also discusses several practices evaluating the role of hibah in resolving issues related to Riba. In particular, these practices demonstrate the validity of hibah as a way to distribute revenues and compensate parties in Islamic financial transactions, while achieving competitive advantage over conventional banking, and avoiding the element of Riba.

Keywords : hibah (gift), Islamic Finance, Islamic Law of Contract, profit distribution, Shariah

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