

Financial Risk and Reward in the Light of Islamic Thought



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As an Islamic knowledge and financial management student, Afghahi's research concerns designing Islamic, inclusive, stable, and fair financial markets. Taking a closer look at the concept of risk, which he identifies as one of the most significant ones in finance, he explores the ways in which human perception of risk and uncertainty can hurt financial market functions. Seyed also believes that the new paradigm shift in financial systems which occurred with the Fintech revolution has provided a unique opportunity to build more efficient and ethical financial systems, so he follows financial technologies development with interest.

The implementation of Islamic social systems in society is essential for the realization of the new Islamic civilization. In this regard, financial systems play a crucial role. In Islamic finance, paying attention to jurisprudential rules has been instrumental in the process of discovering, designing, and implementing the Islamic economic system. One of the key jurisprudential rules that will have a great impact on the macro-designs of the economic system is the rule of “*nahi an ribh la yodman*^f”. Following the definition of this rule, we review its main applications in Sharia-based contracts in this paper.

There have been controversies regarding the concept of the rule of *nahi an ribh la yodman* [1]. Although differences in the interpretation of the concept of this rule will continue, a more precise definition of this rule means the prohibition of receiving profit on capital which is guaranteed by others [1]. Some scholars have pointed out that the *nahi* (prohibition) of profit will imply the invalidity of the transaction [1], but what seems stronger is the word *nahi* does not imply the invalidity of the transaction [3]. Also, according to the use of *daman* (*liability*) in some Islamic texts, it can be considered as bearing the risks of an asset [2]. In other words, according to this rule, if a person has not liability of financial losses, the profit from that property will not be for him.

The rule is used that it is not permissible to give a profit to an owner who has not accepted the risk of his property.

The main evidence of this rule is a hadith with an admissible chain of narration that Ammar quotes from Imam Sadiq (PBuh): “The Messenger of God (PBuh) sent a man from among his companions to a governor, and he said to him: I have sent you to the people of Mecca ... to forbid them earning a profit that is not guaranteed” [5]. We will now discuss some of the main applications of this rule in Sharia-based contracts.

Rule Adaptations in Financial Contracts

Charging interest on *Qarz*: *Qarz* can't be charged interest, which is the most obvious application of this rule. Since the *Qarz* contract transfers ownership to the borrower, the lender does not have any liability for the loss.

Bai al-Inah: *Bai al-Inah* means buying in cash and selling credit to the seller in higher price and vice versa [1]. This contract is forbidden from the Islamic point of view because of its similarity to *Riba*. Abdul-Rahman Ibn Al-Hajaj narrates that “I asked Aba Abdullah (PBUH) about the Inah: A man comes to me and says: Buy the goods and make such-and-such, and I negotiate with him for some of the profit, so he agrees with me. Imam Sadiq (PBUH) said: ... If the possessions perish from it before you sell, it would have been from your owner, and this is your choice if he wants to buy it from you after you have come to him and if he wants to return it, and I don't see anything wrong with it.” [2] In Bai Al-Inah, it is obvious that one of the parties makes a profit and is not liable for any losses.

Transferring market risk in transaction: The market risk was incurred from changing the price of an asset [3]. Abd al-Malik ibn 'Utbah narrated that: “I asked Aba al-Hasan Musa (PBUH), about a man who bought food or goods from him, if am do not liable for loss, is this contract right? And how it can be correct? He (PBUH) said, “It should not.” [4] In this hadith, it is forbidden for the seller to bear the risk of reducing the price of goods in the future in a transaction.

Guarantee of capital in *Mudaraba*: Imam Ali (PBUH) said:” who trades assets (as an *Amil* in *Mudarabah*) and determine the ratio to half of the profit, is not liable for loss. He continued: Who commit a trader for loss, has nothing but his capital.” [5]

This hadith and the fatwa of most jurists agree that if the agent is guaranteed as capital, then the owner of the capital will not receive a share of the profit. If the capital is guaranteed in *Mudaraba*, the owner of the capital will only benefit from the trade without taking any risks.

Lease in higher interest: Asked from Imam Sadiq (PBUH) that: “The man rents the house and then rents it out for more interest than he rented it with. He said: This is not right unless he adds something in this.” [6] Considering that in this type of rent, the person is not liable for any loss and only takes benefit from the interest gap between the two contracts, so this case can also be considered as an adaption of *nahi ribh la-yodman*’s rule. [7]

Prohibition of selling goods in higher price before receiving: This rule can also be applied to selling the product at a higher price before receiving it. In this case, the first seller is liable for any accident before delivery. Therefore, the second seller is not liable for any risks involved in the sale of goods before receiving them, and as a result, he is not entitled to any interest in the contract.

End Note

We need a deep understanding of religious propositions in order to enter the field of social systems design. Jurisprudential rules hold a special place among them. The purpose of this paper is to discuss one of the key rules of designing an Islamic financial system with some examples of Sharia-based contracts. Further research is necessary to examine the functions of this rule in designing more complex financial instruments (containing several contracts).