

111906 - Ruling on “reverse tawarruq” or “reverse muraabahah”

the question

What is the ruling on reverse tawarruq that is offered by some banks?.

Detailed answer

What is meant by “reverse tawarruq”, which is also called “reverse muraabahah” is that the customer appoints the bank to buy a specific product and he gives the price of it to the bank in cash, then the bank buys this product from the customer for a deferred payment, with a profit agreed upon with the customer.

This transaction is haraam, and it is no different than the planned tawarruq that is offered by the bank, except that the roles of the customer and bank are reversed. The basic principle is that the customer is the purchaser and the bank is the seller, but in this case that is reversed, which is why they call it reverse tawarruq. In the answer to question no. [82612](#) and [98124](#) we have stated that planned tawarruq is haraam, and the shar’i reservations concerning it.

There has been issued a statement of the Islamic Fiqh Council that the kind of transaction mentioned in the question is haraam. This statement reads as follows:

alone, and blessings and peace be upon the one after whom there is no Prophet, our Prophet Muhammad, and upon his family and companions.

The Islamic Fiqh Council of the Muslim World League, in its nineteenth session, held in Makkah al-Mukarramah between 22-27 Shawwaal 1428 AH (3-8 November 2007 CE) examined the subject “products offering an alternative to depositing for a certain length of time” which are offered by some banks at present under several names, such as reverse muraabahah, reverse tawarruq, direct investment, investing by muraabahah and other names which have been invented or may be invented. The most common form of this product is as follows:

- 1.The customer appoints the bank to buy a certain product, and the customer hands over to the bank the price of the product straight away.
- 2.Then the bank buys the product from the customer for a price to be paid at a later date, with a profit margin as agreed.

After listening to the comprehensive discussion on this topic, the Council determined that this transaction is not permissible, for the following reasons:

- 1.This transaction is similar to the ‘eenah transaction which is haraam according to sharee’ah, in that the purchased product is not sought in and of itself, so it cannot come under the ruling on that type of product, especially since the bank is committed to buying this product from the customer.
- 2.This transaction comes under the heading of planned tawarruq. The Council has previously stated that planned tawarruq is haraam, in its second statement in its seventeenth session. The reason why planned tawarruq is forbidden is also present in this transaction.
- 3.This transaction is contrary to the purpose of the Islamic way of financing, which is based on connecting finance to real activities which support economic growth and prosperity.

The Council appreciates the efforts of Islamic banks to protect the ummah from the problem of riba, and it emphasizes the importance of proper application of Islamically-acceptable transactions and avoidance of dubious or superficial transactions which lead to haraam riba. Hence it recommends the following:

- 1.Banks and financial institutions should avoid riba in all forms, in obedience to the command of Allaah (interpretation of the meaning): “O you who believe! Fear Allaah and give up what remains (due to you) from Ribaa (from now onward) if you are (really) believers” [al-Baqarah 2:278].
- 2.The role of fiqh councils and independent academic bodies in correcting and guiding the course of Islamic banks should be affirmed, so as to achieve the aims and goals of the Islamic economy.

3. A supreme committee should be set up in the central banks of all Muslim countries, independent of the commercial banks, composed of Islamic scholars and financial experts, to act as a reference point for Islamic banks and to ensure that their work is in accordance with Islamic sharee'ah.

And Allaah is the Source of strength. May Allaah send blessings and peace upon our Prophet Muhammad and his family and companions. End quote.

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And Allaah knows best.