

113852 - What Types of Deposits Are Allowed in Islamic Banks?

the question

What is the ruling on making a deposit in an Islamic bank, such as the Faisal Islamic Bank?

Summary of answer

If the bank adheres to investing the deposits in permissible projects without guaranteeing the customer's capital, and agreeing with the customer on a defined share of the profits, then there is nothing wrong with making investment deposits in this bank, and there is also nothing wrong with opening a current account with it.

Detailed answer

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What is a deposit?

A deposit (Wadi`ah) is something that is left with someone else for safekeeping, without the other person having the authority to dispose of it. This is applicable to the safety deposit boxes that may be found in hotels and elsewhere, and also in some banks.

With regard to bank deposits, that is something different, because the bank does not keep the exact money [that you deposit]; rather the bank disposes of it.

This is as far as names are concerned.

Types of bank deposits

With regard to the rulings, bank deposits are of two types:

- The first type is a non-investment deposit, which is also called a demand deposit account or a current account. How it works is that the customer deposits his money in the bank on the basis that he can withdraw it whenever he wants, without making any profit or gain from the process. There is nothing wrong with this idea, because in a way it is a loan from the customer to the bank. But if the bank is Riba-based, it is not permissible to deposit money in it, because the bank will benefit from this money and use it to support it in its prohibited activities.

However, if the customer needs to put his money in the bank for safekeeping, and there is no Islamic bank where he can put his money to keep it safe, then in that case there is nothing wrong with him [putting his money in a Riba-based bank](#).

- The second type is investment deposits, in which the customer puts his money in the bank in return for profits or dividends to be paid at set intervals, as agreed.

Forms of investment deposits

This type of deposit may take several forms, some of which are permissible and some are prohibited.

- One of the permissible forms is where there is a profit-sharing (Mudharabah) contract between the customer and the bank. In this case, the bank invests the money in permissible projects, in return for a set share of the returns. There are several conditions that are to be met in this case:
 1. The bank should invest the money in permissible enterprises, such as establishing beneficial projects, building houses, and the like. It is not permissible to invest the money in building Riba-based banks or cinemas, or lending with interest to the needy. Based on that, it is essential to know the nature of the investment that the bank will make.

2. There should be no guarantee of the capital. So the bank should not commit to return the capital if the bank incurs loss, so long as there has been no shortcoming on the bank's part that resulted in the loss.

That is because, if the capital is guaranteed, then this in reality is a loan contract, and any profit that it brings is regarded as Riba (usury).

3. The profit should be defined and agreed upon from the outset, but it should be defined as a percentage of the profit, not of the capital. So one of the two parties should get, for example, one third or one half or 20% of the profits, with the remainder going to the other party. The contract is not valid if the percentages of the profit are not known or defined. The fuqaha' stated that profit-sharing (mudaarabah) is rendered invalid if the shares of profits are unknown.

Prohibited forms of investment

Prohibited forms of investment include the following:

1. If the capital is guaranteed, so the customer deposits 100, for example, in order to get interest of 10, along with a guarantee of the one hundred. This is a Riba-based loan, and it is the regular practice in most banks.

It may be called a deposit, or investment certificates or a [savings account](#), and the returns may be shared periodically, or by drawing lots, as in the case of [Class C investment certificates](#). All of that is prohibited.

2. If the bank invests the money in prohibited projects, such as building cinemas and tourist resorts, in which evils are widespread and many sins are committed, it is prohibited to invest in this bank in that case, because this comes under the heading of cooperating in sin and transgression.

This is a brief overview of different types of deposits in banks.

Resolution of Islamic Fiqh Council on bank deposits

In a statement of the Islamic Fiqh Council belonging to the OIC (Organization of Islamic Cooperation, formally the Organization of the Islamic Conference) it says the following:

1. Deposits that may be withdrawn at any time (demand deposit account or current account), whether they are in Islamic banks or Riba-based banks, constitute loans according to the Islamic jurisprudential point of view, as the bank which receives these deposits is entrusted with them (and liable for them), and are required according to Shari`ah to return the money on request.

The fact that it is a loan is not altered by the fact that the bank is wealthy.

2. Bank deposits may be divided into two types, according to the regular practices of the bank:

- Deposits on which interest is paid, as is the case in Riba-based banks. These are prohibited Riba-based loans, regardless of whether the type of deposit is a demand deposit account (current account), or a deposit that is made for a set period, or a deposit for which notice must be given for withdrawal, or a savings account.
- Deposits given to banks that are committed to operating in accordance with the rulings of Islamic Shari`ah on the basis of an investment contract, in return for a share of the profit; these deposits are regarded as capital for profit-sharing (Mudharabah) contracts, and are subject to the rulings on profit-sharing (Mudharabah) contracts according to Islamic Fiqh (jurisprudence). These rulings include the impermissibility of the bank guaranteeing the capital (or being liable for it)." (Majallat Majma` Al-Fiqh, issue no. 9, part i, p. 931)

If the Faisal Bank adheres to these guidelines, namely investing the money in permissible projects and not guaranteeing the customer's capital, and agreeing with the customer on a defined share of the profits, then there is nothing wrong with making investment deposits in this bank, and there is also nothing wrong with opening a current account with it.

And Allah knows best.