

Islam Question & Answer

General Supervisor:
Shaykh Muhammad Saalih al-Munajjid

269291 - Ruling on dividend bonds and investment certificates with prizes

the question

My question has to do with bonds that entitle the bondholder to win a prize. In our country Pakistan, the State Bank of Pakistan issues bonds of different denominations - 200, 500, 1500 and so on - which is the sum you can withdraw at any time, before or after the prize draw, or after a specified period. The bank does a draw for prizes, and the holder of the winning bond gets the prize offered, which may be one hundred thousand or even ten million. Whether you win or not, you can withdraw the money with which you bought this bond. What I want to ask is: how can this be regarded as a kind of gambling, when there is no loss and no possibility of that, and you can take the money in cash at the end? How can anyone say that the money given in this prize is based on interest (riba)? I have read a hadith about that, in which the Prophet (blessings and peace of Allah be upon him) says: "Every loan that brings a benefit is riba." Sunan al-Bayhaqi. Is this saheeh?

Detailed answer

Praise be to Allah.

Firstly:

A bond is a certificate that obliges the issuing body to pay the bearer the face value when it becomes due.

So long as the bank is holding the money and doing business with it, and is obliged to return it, then this is a loan.

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What is meant by a loan according to Islamic teachings is taking wealth in order to make use of it, and return it.

If the bank makes a commitment to pay interest or a return on the bond, then this is interest on the loan, which is riba (usury), according to scholarly consensus.

Al-Qurtubi (may Allah have mercy on him) said in his Tafseer (3/214): The Muslims are unanimously agreed on the basis of reports narrated from their Prophet (blessings and peace of Allah be upon him) that the stipulation of extra payment on a loan is riba, even if it is a handful of animal feed – as Ibn Mas‘ood said – or a single grain. End quote.

Ibn Qudaamah (may Allah have mercy on him) said in al-Mughni (6/436): Any loan in which it is stipulated that extra be repaid is haraam, and there is no difference of scholarly opinion on that. Ibn al- Mundhir said: [The scholars] are unanimously agreed that if the lender stipulates that the borrower pay back something extra or give him a gift, and he gives the loan on that basis, then taking anything extra in return for that is riba. It was narrated from Ubayy ibn Ka‘b, Ibn ‘Abbaas and Ibn Mas‘ood that they forbade loans that bring benefits. End quote.

With regard to the hadith, “Every loan that brings a benefit is riba”, it was narrated by al-Bayhaqi from Fadaalah ibn ‘Ubayd, Ibn Mas‘ood, Ubayy ibn Ka‘b, ‘Abdullah ibn Salaam and Ibn ‘Abbaas in mawqoof reports [in which the isnad ends with them and is not attributed directly to the Prophet (blessings and peace of Allah be upon him)].

Al-Haarith ibn Usaamah narrated it in his Musnad from the hadith of ‘Ali (may Allah be pleased with him) in a marfoo‘ report [in which the isnad goes back to the Prophet (blessings and peace of Allah be upon him)].

It is a da‘eef (weak) hadith, but its meaning is sound and is a matter on which there is scholarly consensus, as stated above.

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To sum up, bonds that bring an annual or monthly return come under the heading of riba-based loans and are haraam.

Hence fiqh councils have issued prohibitions on bonds and on investing in class A and B shares.

Secondly:

Dividend bonds or class C shares that offer prizes are also haraam, because these are prizes or gifts that the bank is obliged to give.

Ultimately, the prizes are not given to all bondholders; rather they are given to some of them by means of a lottery or draw, so this is interest (riba).

In fact it is a combination of riba and virtual gambling, as will be explained below.

If Islamic teaching forbids voluntarily giving a gift to the lender when the loan is first given, then what you think it says about these gifts that the bank is committed to give?

Ibn Maajah (2432) narrated that Yahya ibn Abi Ishaq said: I asked Anas ibn Maalik: What if one of us gives his brother a loan, then (the borrower) gives him a gift?

The Messenger of Allah (blessings and peace of Allah be upon him) said: "If any one of you lends something then (the borrower) gives him a gift or gives him a ride on his mount, he should not accept the ride or the gift, unless they used to treat each other in that manner before that."

Classed as hasan by Shaykh al-Islam Ibn Taymiyah in al-Fataawa al-Kubra (6/159).

Al-Bukhaari narrated in his Saheeh (3814) that Abu Burdah said: I came to Madinah and met 'Abdullah ibn Salaam (may Allah be pleased with him). He said to me: You live in a land where riba is widely practised. If a man owes you something and he offers you a load of straw, or a load of barley, or a load of clover, do not accept it, for it is riba.

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Clover is a plant eaten by animals.

The Islamic Fiqh Council has also issued a prohibition on this type of bonds.

It says in the statement of the Council no. 6/11/62 regarding bonds:

The session of the Islamic Fiqh Council held during its sixth conference in Jeddah in the Kingdom of Saudi Arabia, 17-23 Sha'baan 1410 AH/14-20 March 1990 CE,

After studying the papers, recommendations and conclusions presented in the seminar on Financial Markets, that was held in Rabat, 20-24 Rabee' ath-Thaani 1410 AH/20-24 October 1989 CE, in cooperation between this Council and the Islamic Institute for Research and Training affiliated to Islamic Development Bank and the Ministry of Awqaaf and Islamic Affairs in the Kingdom of Morocco,

And after learning that a bond is a certificate or document whereby the issuer makes it binding upon itself to pay the bearer the face value when it becomes due, whilst also paying interest at an agreed-upon percentage of the face value of the bond, or arranging some benefit as stipulated, whether in the form of prizes allocated by drawing lots, or a lump sum, or a discount,

The council has determined the following:

1.

The bonds that make it binding to pay the face value plus a percentage of that value as interest, or state that there should be some stipulated benefit to the holder, are haraam according to Islamic teachings, and it is haraam to issue them, buy them or trade in them, because they are riba-based loans, whether the issuing body is private or is public and connected to the state. It makes no difference whether they are called certificates, investment bonds or savings bonds, or whether the stipulated interest is called a "profit" or a "yield" or a "commission" or a "return".

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2.

Zero-coupon bonds are also haraam, because they are a kind of loan that is sold for less than the face value, and the holder benefits from the difference [when redeeming the bond], because it is like a discount on this bond.

3.

Prize bonds are also haraam, because they come under the heading of a loan with a stipulated benefit or extra return, for the lenders as a group, or for some of them, but not individually, in addition to the resemblance to gambling.

End quote from *Majallat al-Majma'* (no. 6, vol. 2, p. 1273; no. 7, vol. 1, p. 73).

In *Fataawa al-Lajnah ad-Daa'imah* (15/196), it says:

Question: Some commercial banks in the Gulf states offer prizes such as cars or houses to anyone who opens a savings account to keep his money with them; they hold a draw for the customers of the bank, and one of the customers wins the prize. What is the ruling on this prize?

Answer: If the matter is as described, then these prizes are not permissible, because they are a kind of riba and interest in return for depositing money in the riba-based bank. Altering the names does not alter the facts. End quote.

Thirdly:

The reason why there is gambling in these kinds of bonds was explained by Dr. 'Ali as-Saaloos in his book *Mu'aamalaat al-Bunook al-Hadeethah fi Daw' al-Islam* (p. 38):

The riba-based bank divides certificates (bonds) into three categories, and makes the first category different to the second with the aim of attracting the greatest possible number of clients.

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In the last (third) category the bank goes even further; it works out the total amount of interest to be paid, then divides it into varying amounts which will be given to a smaller number of lenders, then it distributes these amounts - which it calls prizes - by means of drawing lots.

Thus we may find someone who gave a very small loan taking thousands of pounds, whilst one who lent thousands will not get anything at all. The former takes his share of the riba as well as the share of many others, whilst the latter loses his share to someone else. Every time there is a distribution of prizes, people look forward to it, and one comes away happy with what he got whilst another is upset by what he missed out on. Then they look forward to another round. Is this not the same as gambling? Thus the riba-based bank resorts to gambling with the riba! So whoever is not content with his share of riba in the first two categories can gamble with his share in the third category... Is it not then the case that the third category is worse than the first two? End quote.

The reason why this transaction constitutes gambling is that the one who participates is gambling with what he would have taken otherwise as monthly interest (in the first and second categories).

So either he will gain a large sum of money (the prize) or he will lose that interest.

Whether we state categorically that this transaction is gambling, or say that it resembles gambling, this transaction is haraam, because these prizes are a kind of interest.

And Allah knows best.