The Concept of Qarz-ul-Hasan and its Practices in Islamic Banking Industry of Pakistan

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ABSTRACT

Qarz-ul-Hasan is considered as one of the main features of Islamic economics system. In the banking sector, scholar recommends that it could be utilized for the betterment of the economy and reduction of poverty as it will accommodate the need of the poor without extra burden of interest. In this paper the utilization of Qarz-ul-Hasan is examined in the perspective of Islamic Banks in Pakistan. It is observed that keeping in view the limitations of the industry; presently no Islamic bank is offering Qarz as a product. However in some products, like Current account, Margin Deposits, Letter of Guarantee and Documentary Credit, Qarz-ul-Hasan is being used. Structure of those products is also studied and corrective measures are suggested in the light of sharia. The study suggests that Qarz-ul-Hasan should be used as a tool of poverty alleviation to achieve the objective of socio economics system of Islam. The study also adds original value to the quantity of contemporary literature on Qarz-ul-Hasan.

Keywords*: Qarz-ul-Hasan, Current Account, Letter of Guarantee, Security Deposits, letter of Credits.*

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Introduction

Islamic Economic System is diverse from the conventional systems. It discourages the disputes between the parties of contracts by eliminating *Gharar*(ambiguity), uncertainty and encourages that contract should be beneficial for the society by prohibiting interest. It also promotes zero return financing like *Qarz-Hasana* to decrease poverty in the society and accomplish the requirement of the needy as accentuated in the Quran:

> *"If you loan ALLAH a goodly loan, He will multiply it for you and forgive"*(1)

Qarz-ul-Hasan is among the obligatory Charity (Zakat) and Waqf which are the tools for redistribution of wealth in the society. Qarz-ul-Hasan shows the spirit of cooperation and Quran induces its followers by cooperating each other's in the righteousness and piety (5:2). The socio economics objectives of Islam may be achieved through utilization of Qarz-ul-Hasan.

In present day economics system, The real impact of Qarz-ul-Hasan on the society may also be achieved by implementing it as a mode of financing by Islamic financial institutions, however, it is important that in overall Islamic banking system of Pakistan, apart from being a mode of finance, Qarz-ul-Hasan come into force and play wide role in different products, like security deposits, Bank guarantee, letter of Credit etc, which also need to be discussed.

Literature review

Qarz-ul-Hasan is discussed by several scholars while discussing the sharia position of current accounts, Umar conversed current account and the case of wadiah and Qarz-ul-Hasan(2). Nadwi analyzed the moral aspect of Qarz-ul-Hasan from sharia perspective and illustrate the term Qarz and Qarz-ul-Hasan from different angles(3). Hanif presented time multiple counter loans product (TMCL) for Islamic banks based on the concept of Qarz(4). Husain and Giashi discussed the Qarz-ul-Hasan in the perspective

(1) Surah Al-Taghaban:17

(2) Farooq, Mohammed Omar. "Qard Hasan, Wadi'ah/Amanah and Bank Deposits: Applications and Misapplications of Some Concepts in Islamic Banking." *Arab LQ* 25 (2011),115

(3) Abdullah, Mohammad, "Analysing the moral aspect of qard: a shariah perspective." *International Journal of Islamic and Middle Eastern Finance and Management* 8, no. 2 (2015),171-184

(4) Hanif, Muhammad. "Cash Loans under Islamic Financial System: A Workable Solution." *Available at SSRN 1979970*(2012). (Retrieved on 91,march,2019 https://www.researchgate.net/publication/228241668)

in Iran(1).Zamir and Bushra examined the case of Akhuwat micro finance of Pakistan, based on Qarz-ul-Hasan and its impact on social finance(2).

AZ abidin et al reviewed implementation of Qarz-ul-Hasan as a financing product in Malaysian banks, however the study was limited to the employees of the bank and did not cover the impact and utilization of Qarz-ul-Hasan as a product for general public(3). Bello and Rusni, analyze the sharia position of saving and current account, they are of the view that current accounts are based on wadiah and trust keeping(4).Usmani however preferred that basis of current accounts are Qarz-ul-Hasan.(5)

Bank Negara Malaysia, The central Bank of Malaysia issued concept paper as regards to Qarz contract for financial institutions in Malaysia, inviting feed backs and suggestions of the stake holders. The paper contains the proposed governance, structure and risk management of the contract if executed by the Islamic financial institutions(6).

Literature on Qarz-ul-Hasan focusing on Islamic banking industry is limited; particularly the operational area of IFI's is not discussed. This study attempts to discuss Qarz-ul-Hasan in contract/products where the original contract is not Qarz, for instance, conversion of the amount of securities from amanah to Qarz, similarly the amount paid by IBI;s in the case of guarantees etc. The study also highlights various sharia issues and its possible solutions, Further the study attempts to add value to the literature of Qarz-ul-Hasan.

The Concept of Qarz and its position in Shariah

Qarz literally meaning "to cut" and this contract is called Qarz as the creditor cuts some portion of money and give it to the needy person(7).In Shariah, Qarz is defined as giving something to another person with the

(1) Ashraf, S. Husain, and Ali AlizadehGiashi. "Islamic Banking in Iran: Progress and Challenges." *Kuwait Chapter of Arabian Journal of Business and Management Review* 33, No. 830 (2011), 1-28

(2) Zamiriqbbal, Bushra, "Islamic finance and the role of qarz-ul-hasan (benelovent loans) in enhancing inclusion:A case study of Akhuwat", *oxford journal of finance and Risk PrespectiveVol, 04 issue 04, oct 2015*.

(3) Abidin, Ahmad Zainal, et al. "A case study on the implementation of Qardhul Hasan concept as a financing product in Islamic banks in Malaysia." *International Journal of Economics, Management and Accounting* 19, No. 3 (2011).

(4) Bello, Shafi'I. Abdul Azeez, and RusniBt Hassan. "Saving and Current Account in the Context of Shari 'ah Contract." *Nigerian Chapter of Arabian Journal of Business and Management Review* 62, no. 1099 (2014), 1-10

(5) Uusmani, Muhammad Taqi, and MuḥammadTaqīʿUs̲mānī. *An introduction to Islamic finance*. Vol. 20. Brill, 2002.

(6) (Accessed at 21 march,2019 http://www.bnm.gov.my/guidelines/05_shariah/CP_Qarz-ul-Hasan_Final.pdf

(7) Sharbeeni, alkhateeb ,*Mughni al muhtaaj*, l2/117

condition that he will repay similar thing to the creditor[1]. Shariah scholars are unanimous on the justification of Qarz contract, it is narrated from Hazrat Abdullah Al-Makhzomi that prophet Muhammad (ﷺ) himself took forty thousand as loan.[2] Qarz is considered as half of sadaqah.[3] (Charity)

However, some saying of the Holy prophet is also quoted in which the prophet seek protection of Allah from Qarz,[4] due to which, some vagueness is created regarding the actual position of Qarz in Shariah.

Hafiz ibn hajar writes while commenting on the issue that the protection of the prophet is related to the Qarz (loan) which is taken for illegal activates,or taken by someone without having sufficient sources of repayment[5]. While Allama Badruddin Aini explains that dissuasion is with regards to loans without any necessity or intentions of repayment[6].

Basic rules of Qarz-ul-Hasan

According to Hanafi school of interpretation, the subject-matter of the contract of Qarz should be known and fungible (misli) marketable wealth. While other scholars are of the view that Qarz is allowed in everything which can be made a subject matter of Salam (a contract in which payment is made in advance for the subject matter to be delivered latter)[7]. While it is also debatable among the scholars that whether Qarz can be deferred by fixing the time of repayment or not? Majority of Shariah Scholars are of the view that it could not be deferred and the creditor have the full right to demand the repayment of the Qarz while Imam Malik are of the view that Qarz accepts deferment[8] and legal course of action may be commenced against the person who does not repay the Qarz[9].The amount of Qarz shall be paid before the initiation of the distribution of the inheritance of a deceased.It is allowed for the creditor to demand security in the shape of mortgage, personal guarantee etc for his satisfaction and repayment of Qarz.[10] It is stipulated that no additional money or benefits shall be taken against Qarz, as every Qarz which attracts any benefit is Riba.

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(1) Ibn hazm, *Al Muahhalla* , 8/462
(2) Nasai, Ahmed ibn shoaib, *sunan*, baabulistiqraaz, Hadees No:2424
(3) Ibn Maja,Muhammad ibn yazeed ,*sunan ibn maaja*, 2/56
(4) Al bukhari, Muhammad ibn ismail, *Saheh Bukhari*, kitabulistiqraz, Hadees No: 2387 and Nasai, ,ahmed ibn shoaib, *sunannasai*, 3/113
(5) Al-asqalani, ibn hajar , *FathulBaari*,, 2 /319
(6) Aini, Badruddin, *Umdat-ul-qari*,2011, 6/117
(7) Zuhayli, wahba, *Alfiqhu Al- islami wadillauthu* 2005, 4/723
(8) Zuhayli, wahba, *Alfiqhu Al- islami wadillauthu*, 4/726
(9) AAOIFI,2010
(10) Surah Al-Baqarah:283

"كل قرض جر نفعا فهو ربوا"(١)

extra payment shall not be charged on Qarz however actual service charges may be demanded as Accounting and Auditing Organization of Islamic Financial Institution said "Actual expenses related to lending of Qarz may be charged however it is not permitted to charge an amount in excess of actual expenses" (2). All charges in excess of the actual amount spent *are* prohibited, and it is necessary to ensure precision in the determination of the actual charges so it may not lead to an excess that can be deemed a benefit. However, indirect expenses shall not be included in actual expenses, like the salaries of the employees, the rentals of space, assets etc.(3)

Islamic banking in Pakista

In 1947, while inaugurating the state bank of Pakistan. The leader of the nation, Muhammad Ali jinnah emphasized on the islamization of the economic system of Pakistan, formal work started after issuance of presidential order in 1979 on elimination of riba from the economy, Islamic ideology council also started work on presenting an alternative to the conventional system, In the light of recommendations given by the CII, the State Bank of Pakistan in 1983-84 issued notification regarding Islamic modes of financing to be adopted by the banks. The mark-up based practice adopted by the banks were declared un-Islamic by the federal Shariah court in 1991.In 1999 Shariah appellate bench of the supreme court of Pakistan also issued similar verdict about Riba based banking(4).

In 2002, the State Bank of Pakistan issued detailed notification regarding setting up a full-fledged Islamic Banksand windows of Islamic banking by conventional banks in the country(5). Since then, Islamic banking in the country grows day by day. Presently five full-fledged and sixteen windows of Islamic banks opened by conventional banks are operating in the Pakistan with 14.7% share in the overall banking industry(6).

Performance of Islamic banks as provider of Qarz-ul-Hasan

Despite the importance of Qarz-ul-Hasan as wealth provider for the needy people of the society and encouragement of the sharia, Qarz-ul-

(1) Shaami, ibn e abideen, *Radd-ul-MuhTaar*, 1992, 4/182
(2) Aaoifi Sharia Standards, #19, clause 9/1 AAOIFI, 2010
(3) Resolution No. 13 (1/3) was issued by the International Islamic Fiqh Academy (OIC) regarding the recovery of actual costs"
(4) Retrieved on 20 march 2019, (http://www.supremecourt.gov.pk/web/user_files/file/jr_detailed_judgment_in_riba_case.pdf)
(5) Retrieved on21 march 2019, (http://www.sbp.org.pk/bpd/2003/C1.htm).
(6) .Retrieved on22 march 2019(http://www.sbp.org.pk/ibd/bulletin/2018/Sep.pdf)

Hasan is the product which has been disregarded so far by the Islamic Banking industry in Pakistan. The Islamic banks offered variety of products like Murabaha, Ijara, Running Musharaka, Istisna etc. Qarz-ul-Hasan may also be used by the Islamic financial institutions for reducing poverty ratio in the society, however apart from experience of micro finance institution "*Akhuwwat*" no IBI has entered in this area to utilize this product.

Summery and comparison of products being used by IBI;s in Pakistan (Previous three years)(1)

No	Name of Product	Dec 16	Dec 17	Sep 18
1	Murabaha	15.8	13.2	12.8
2	Ijara	6.8	6.4	6.6
3	Musharaka	15.6	22.0	21.5
4	DiminsihsingMusharaka	34.7	30.7	33.4
5	Salam	4.4	2.8	2.3
6	Istisna	8.4	6.2	7.6
7	Others	14.3	17.5	15.8
8	Total	100%	100%	100%

Current Account, Qarz-ul-Hasan or Wadiah

There is a difference of opinion among the sharia scholars regarding the position of deposits accepted under the category of non-remunerative Current accounts.(remunerative current accounts are considered the current account which are accepted by the bank with paying extra payment on them but cannot attract minimum payment of minimum return(2)).Some scholars are of the view that the deposits in these account are accepted under the wadiah and safe keeping contract(3).The word Wadi'ah derived from the-word wada'a, which means to 'leave'. al-Wadi'ah means, " to keep something with a person for safe keeping ," . The real owner is called al mouddii, the person who keeps it, is called Moodaa while this contract is called wadiah(4).

However on the other hand, majority of the sharia scholars are of the view that these accounts shall be considered as Qarz, They argue that the amount kept under current account is guaranteed, to be given back to the

(1) Retrieved on22 march 2019http://www.sbp.org.pk/ibd/bulletin/2017/Dec.pdf,http://www.sbp.org.pk/ibd/bulletin/2018/Sep.pdf, https://www.ceicdata.com/en/pakistan/loans-islamic-banks/loans-islamic-banks-Qarz-or-Qarz-e-hasna.

(2) SBP, IBD Circular no03 of 2012,

(3) Bello, Shafi'I. Abdul Azeez, and Rusni Bt Hassan. "Saving and Current Account in the Context of Shari 'ah Contract." *Nigerian Chapter of Arabian Journal of Business and Management Review* 62,vol,1 no.12 (2014),1-12

(4) Zuhayli ,wahba, ,al-fiqhuIslami wadillauthu,vol4, p 726, 2005

account holder on demand and if the amount is stolen or any harm is happen to it, the bank will be liable to bear the losses and the amount will be returned in full, similarly if banks invest the same in any profitable venture, the account holder will not have any right in the share of the profit so earned which are the characteristic of Qarz-ul-Hasan .this view is accepted by the AOOIFI(1). Islamic fiqh academy Jeddah also have the same view on current account, resolution no 86/3/95 of the academy says "Current accounts are considered as a loan from sharia perspective.

Current Account: Qarz to Bank or Mudarba Pool

The question arises that if amount of Current accounts is Qarz, then who take Qarz and who is the debtor of the Qarz? Presently, the Islamic Banks in Pakistan are treating current accounts as Qarz for the Mudarib only i.e. Islamic financial institution. they argue that the Bank is responsible for any harm or loss to the amount of current account hence the bank can utilize the same for its benefit and the profit earned by the amount of current account may be added to the banks portion of profit, The Bank of Punjab Taqwa Islamic bank;s Account opening form states that

> *"no profit shall be payable on Current Account and the deposits received by the Bank under Current Account can be used by the Bank as its equity at its sole discretion for its business purposes including investments and financings under Shariah compliant modes in any manner the Bank considers appropriate after approval of its Shariah Advisor"*(2).

For instance if the bank equity is 25% of the investment and current account is also 25% of the total investment and 50% come from the investment account holders, the bank share in the investment shall be considered 50% as the current account will be added to the equity.

Application of sharia rules on current accounts as Qarz

While agreeing on the fact, that current accounts are accepted on the basis of Qarz-ul-Hasan, sharia rules of Qarz shall be applicable on non-remunerative current accounts. The principle amount will be guaranteed and the bank will be bound to repay the borrowed amount in full. Accounting and auditing organization of Islamic financial institutions also makes it binding on the bankto return a similar amount on demand for the current deposit further it is also stated that being a Qarz, no extra amount, material gift, Financial incentives, services shall be presented to the owner of current account(3).AAOFI also put exemption from credit card

(1) AOOFI:2010

(2) Retrieved on,23 march 2019 https://www.bop.com.pk/Islamic%20Banking%20-%20Terms%20and%20conditions)

(3) Sharia Standards, by Accounting and auditing organization for Islamic financial institutions. Page 351,:2015

charges,transfers charges,deposit box charges in the said category. State bank of Pakistan have the same observations about value added services offered to current account holders by IBI; s, However SBP states that it is allowed if these services are offered on the basis of relationship to all account holder across the board.(1)

Amount kept under Security and Qarz

An asset/cash pledged or kept in the account with lien marked on it, to guaranty the repayment of a loan or satisfaction of an obligation, or in compliance of an agreement is called security(2). Islamic banks also take securities from their clients like mortgage, pledge and lien on account which is called Hamish jiddiya(3).

From sharia perspective, any collateral or mortgage which is kept under security is called Rahn. Shari'a permits that a creditor may stipulates that borrower shall put up rahn or secure repayment as Al-Quran States: If you are on a journey, and cannot find a scribe, then a security deposit should be handed over (quran:2:283)the subject matter of rahn should be kept in safe custody by creditor and could not utilize it for his benefits as the subject matter of rahn is considered as Amanah (safe keeping) and the creditor is with whome the subject matter is kept is ameen(safe keeper).(4)

Concept of yad-ul-amanah and yad-ul -zamaan

Possession of a person on asset is divided into two basic categories in sharia, possession of amanah and possession of Zaman, which is called yad-ul-Amanah and yad-ul-Zamaan. In possession of zaman the possession holder is liable and responsible of the loss or damage of the possessed assets whether the damage is due to negligence or without any intention, like possession of stealer, owner etc as they will born all the losses. While in the possession of amanah he is only liable in case of deliberate loss, negligence or misconduct like possession of mortgage with the mortgagee or possession of lease corpus with the leasee. The possession of amanah and trust is converted into zamaan if negligence or misconduct from trustee is proven(5).

Conversion of amount of security into Qarz:

In Sharia, all securities with the bank are considered as amanah and bank is trustee and ameen. However it is a proven fact that bank does not keep the amount of security separately, instead it is mixed with other amounts with the bank and bank utilizes it for its own benefit.

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(1) Retrieved on24 march2019 -http://www.sbp.org.pk/ibd/2014/C1.htm

(2) Retrieved on 24 march2019 http://www.businessdictionary.com/definition/security.html)

(3) AAOIFI Sharia Standards, Sharia Standard # 05,Clause 7/8/2, 2010

(4) Zuhailay, wahba, *alfiqh-al-islamiwadillathu* , 5/179

(5) Encyclopedia of fiqh, ministry of auqaf Kuwait, 28/258

As mentioned earlier, the amount of amanah is converted into Qarz due to intentional utilization by the trustee and all rules of Qarz will apply on the securities kept with the bank(1).

Application of Rules of Qarz on Security amounts with the bank

Being a Qarz, all rules of Qarz shall be applicable on this amount, hence advantages given on the basis of this amount is not appreciated in sharia, for instance, as a matter of practice, IBI;s take the security deposit from a customer who intend to inter into vehicle ijara with the bank and calculate the rental schedule considering the security amount , the increase and decrease of this amount of security effects the monthly rental schedule of the client, if the client increase the security amount, the monthly rentis decrease and vis a verse. Sharia scholars categorically discourage this practice(2).Increase in the amount of Qarz effect the rental amount of ijara which may come under the rule

"every Qarz which attract benefits is riba"(3).

Hence it should be avoided.

Some sharia scholars suggested that the objection may be eliminated by accepting this amount in mudarba based accounts in investment pool instead of current account andprofit may be paid on the amount kept in this type of accounts as remunerative current accounts. .In this case, the customer amount/account shall not be treated as current instead another category of mudarba account shall be created with nominal wightages and the amount in the account will be considered as capital of rabbulmal, hence IBI will be allowed to utilize the amount and customer shall also be given his due share in mudarba, similarly, IBI may decrease or increase the rent of the ijara vehicle depending upon the situation of the deposit. Lien may also be marked on this account for the purpose of security.

State Bank of Pakistan also issued following clause regarding treatment of the security amount:

> *"If the customer pays any security deposit in cash to the IBI, the same shall be placed in a PLS account under lien of the IBI. Customer shall be entitled to receive the profit fromsuch PLS account against the security deposit. However, in case of default by thecustomer, the IBI is allowed to adjust the security deposit to the extent of customer's liability"*(4).

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(1) Retrieved on 25 march 2019 http://www.darulifta-deoband.com/home/ur/Interest--Insurance/156817

(2) Mansoor, salman, *kitabulmasaial* , 2/143

(3) Al baihqi,abubakar ,*sunanbaihaqi*, 5/350

(4) annexure-1 of IBD Circullar #02 of 2008 instruction for sharia compliance in islamic financial institutions.

However some sharia scholars have reservations on assignment of nominal and lower weightage to this category of deposit.

Qarz and Bank Guarantee

Banks facilities are divided into fund based and non-fund based. Fund based facilities involves banks cash while non fund based faculties does not involve cash from day first, however it may require cash on some letter stages in some case. Some of non-fund based facilities are letter of guarantee and letter of credit.

Bank guarantee is defined as acceptance of responsibility of an obligation of the third party, if that party does not meet the obligation,The guarantor will be responsible to the liabilities of debtor, In other words, if the debtor fails to perform as per understanding or settle a debt, the bank will be liable for the repayment of debt or the loss accrued(1). Islamic banks also issue guarantee on the request of the client in favor of the beneficiary against the performance or debt created or to be created against the customer, the letter which contains guarantee from the institution is called L.C or letter of guarantee(2).Similarly a documentary credit or letter of credit is also issued on the request of buyer/seller insuring performance, quality or quantity of the assets purchased or payment of the assets to be delivered .incase of failure of performance from the seller or failure in payment of price by the buyer the bank will pay the amount(3).Bank guarantees and letter of credit are issued on customer request however banks charge certain amount on the issuance of such guarantee further bank keep security from the customer in the form of immovable properties or fixed deposits. When the margin is provided by the borrower by means of fixed deposit, it is called as cash margin. The margin is defined as contribution to be borne by the borrower while availing fund based or non-fund facility from the bank(4). In this case if the letter of guarantee or letter of credit is issued by the bank on less than 100% for instance on 70% and the customer fails in his obligation the bank will pay the amount of guarantee as per its commitment. In this case, the customer's account will be debited by 70% of the amount of guarantee and 30% will be paid by the bank.the non-fund based facility will be converted into fund based facility after payment by the bank and interest will be charged from the customer immediately after banks account is debited.

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(1) Retrieved on 25 march 2019 http://www.sbp.org.pk/cpd/cpd-bank.asp

(2) Retrieved on 25 march 2019. https://www.abl.com/business-banking/trade-services/guarantees/

(3) Retrieved on 26march 2019. https://www.investopedia.com/terms/l/letterofcredit.asp

(4) Retrieved on26 march 2019 http://sbp.org.pk/bpd/2004/C23.htm).

Letter of Credit and Letter of Guarantee

The product of kafala and kafala plus wakala is used for LG and LC. kalafah is defined as a guarantee contract on asset, usufruct etc the guarantor is called kafeel the creditor is called makfool-lah and the principle debtor is called makfool-anh while the contract is called kafalah(1).Once the kafala contract is concluded the creditor has established the right to claim the debt from the guarantor he has also the right to demand the payment from the principle debtor as well. Taking part as a guarantor by the Islamic bank in prohibited contract or interest based transaction is not allowed in sharia. The issue of taking remuneration on issuance of guarantee is allowed by some sharia scholars based on maslahah (public benefit) and necessity(2).However, majority of the scholars are of the view that charging fee on kafala in not allowed if the remuneration is intended as consideration(3). However AAOIFI allows Islamic banks to ask the applicant of the guarantee to bear administrative cost incurred in issuance of guarantee.It's also stipulate that such expense should not exceed the commission the other banks charges on such service(4).The issue of documentary credit is different from pure guarantee as the product of documentary credit is not purely based on kafala instead it is wakala plus kafala model (Agency and Guarantee) and charging fee on wakala is allowed unanimously by sharia scholars(5).They permitted the islamic financial institutions to charge fees for providing documentary credit, whether it is in the form of a lump sum or a certain percentage of the credit amount, but the duration of the facility should not be considered while determining the commission.

Conversion of LC and LG into Qarz

When the creditor doesnot fulfill his commitment and guarantee is called, the Islamic financial institution has to pay the amount of guarantee to the beneficiary. If the letter of Guarantee or Letter of Credit hadissued on 100% cash margin the bank will debit the account of the principle debtor and pay the amount of guarantee to the creditor. However if the LG or LC has issued on less than 100% margin, the remaining amount shall be paid by the Islamic financial institution. In this case the conventional banks charge interest on daily basis by converting the non-fund based facility into

(1) Zuhaili, wahba, *alfiqhul Islamic waadillatuhu,* 5/130
(2) Sharifah et al ,a few methods in charging fees for kafolah bank guarantee- among islamic banks in Malaysha,ISRA, International Journal of Islamic Finance • Vol. 6 • Issue 1 • 2014, 51
(3) Resolutions of Islamic Fiqh Academy, Resolution no 12(12/2)
(4) AAOIFI:2015
(5) BNM:2015, wakala concept, paper, (http://www.bnm.gov.my/guidelines/05_shariah/Wakalah.pdf)

fund based facility. In Islamic Banking System, because of involvement of cash the non-fund based facilities .i.e. LC and LG will became fund based facilities as well, However Islamic banks will create Qarz against the debtor and it cannot charge over and above the amount paid to the creditor from the debtor as it lead into riba based transaction.

To cover the risk and avoid this situation, Islamic banks normally deals in LG with 100% cash margin and Murabaha or Ijara Based transaction are preferred in the case of LC .Agency agreement is signed with the customer intends to open an LC.After arrival of documents, payment is made by the bank, the assets is offered to the customer , if he has enough liquidity, he purchase the asset on cash payment in case he is unable to pay the LC amount in total, he is offered deferred sale with profit margin for the bank.

Conclusions and Recommendations

The purpose of the study was to discover the practice of Qarz-ul-Hasan in the Islamic Banking system of Pakistan. Different products of Islamic Banks are discussed and it is recommended that provisions of sharia regarding Qarz-ul-Hasan must be adhered while offering the products containing Qarz-ul-Hasan-e-Hasana principally or within the products line to ensure sharia compliance which is the main pillar of Islamic Banking system.

It is also recommended that sharia Boards of the Islamic banks shall also emphasized while approving the products and the products development department shall make it part of the audit plan to check on a regular basis that whether provision and rules of Qarz-ul-Hasan is followed or not.

The importance of Qarz-ul-Hasan and its impact on distribution, circulation of wealth and decrease in poverty ratio cannot be undermined. Utilization of Qarz-ul-Hasan as tool for providing finance to the needy people in the Islamic banking industry in Pakistan is at a very minimum level. To achieve the goals of socio economic system of Islam and discharge its corporate social responsibility the Islamic Banking industry may developQarz-ul-Hasan based product. The central bank should come forward and issue guidelines with regards to the product. The share holders/Board of Directors of the banks may also take initiative to allocate sum for the Products which will encourage the product development department of the bank to introduce Qarz-ul-Hasan based product which may be offered to the needy students, formers, patients or according the criteria made by the bank.This will have an effect on the whole economy in a very positive way.

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