



# The Principle of *Tadarruj* in Islamic Finance: A Conceptual Review

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## Abstract

Even though Islamic finance industry has been recognized among the promising sectors in the world, it is claimed that the modern financial environment is not too conducive to its progress. In fact, Islamic financial institutions have experienced various challenges, risks and restrictions in their operation. To adapt *Shari'ah* rulings into modern financial system, this effort must be carried out gradually. In this regard, this paper aims to explore the principle of *tadarruj* (gradual) and its application within Islamic finance. Since this is a conceptual research, it is based on document analysis. It is found that the element of *tadarruj* can be learned from the prohibition of *riba* at the time of revelation. In modern time, it seems that this principle has been considered in Islamic banking development in Malaysia, one of among progressive countries in this industry. Since this paper provides a philosophical perspective over the concept of *tadarruj*, it may be useful for all Islamic finance players including regulators, practitioners, and scholars, particularly to introduce new policies, to develop products and to expand the operation of Islamic finance industry.

*Keywords:* *Tadarruj, Islamic finance, Islamic banking*

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## 1. Introduction

Shariah rules are undeniably unique since their establishment and implementation have considered humans' ability and current circumstances. Historically, Islam has emerged in the middle of medieval society which strongly practiced their tradition and custom, with less morality and lawlessness at the same time. Thus, Islam has experienced challenges and difficulties to change their life, particularly when Islamic teachings were against their norm.

In this regard, rulings in Islam were not revealed in one time as the process occurred gradually. To be precise, the preach of Shariah took roughly 23 years in order to be succeeded as a comprehensive system of rule, and the journey involves two periods which happened in Mecca and Medina (Zaidān, 1968). The concept is known as *tadarruj* (gradual), which is recognized as one of the main principles in dealing with Shariah ruling. This concept is notably applied through the revelation of Qur'anic verses whether it provides an abrogation for some existing rulings or set up a new ruling through different stages.

With regard to financial activities, the prohibition of *riba* (interest) falls among one of the Islamic fundamental rulings. Like other prohibitions, *riba* is forbidden because of its negative impacts towards individual, society and country. This is due to *riba* can lead to exploitation from lenders to borrowers in order to maximize their profit which consequently becomes oppression towards the poor. In fact, this exploitation occurs from the individual level up to the country level. According to history, Qur'anic verses pertaining *riba* involved four stages that begins in Mecca, and its final verse is argued by some Muslim scholars (Al-Ṣabūnī,

2000). This indicates how Islam has pragmatically engaged with the widely practice of *riba* among society at that time.

In modern time, with the motivation to replace interest-based economic system, Islamic banking has emerged as an alternative financial institution, particularly for Muslim. Since its first emergence in 1963, Islamic banking industry has dramatically expanded, including its segments such as banking, capital market and *takaful* (Islamic insurance). While this industry is actively fulfilling the needs of Muslim, it is successfully attracting the involvement of non-Muslims and Western countries via their instruments. Nowadays, countries like the United Kingdom, the United States, France, China, and Singapore have recognized Islamic banking as an alternative finance that is available in their financial system (ISRA, 2010a).

Nevertheless, efforts to replace interest-based system or to provide its alternative are easier to be said than done. While Islamic banking industry has been considered among the promising sectors in the world, there were few subliminal unsuccessful stories (Ishak and Asni, 2020). Ihlas Bank for example, was declared bankrupt because of a liquidity problem. Since deposits of Islamic banking institutions were not covered by a deposit insurance scheme, the bankruptcy of Ihlas caused a chain reaction towards other Islamic banks, where depositors were panic and withdraw their money; even though 20 conventional banks had also experienced failure during that crisis (Yanīkkaya and Pabuçcu, 2017). Also, it was reported some of them have experienced huge lost as happened to Dubai Islamic Bank (DIB) and Bank Islam Malaysia Berhad (BIMB) (ISRA, 2010a).

Even Mit Gham Saving Bank, the first Islamic banks ended up with a failure because of the government's hostility towards Islamic identity (Iqbal and Mirakhor, 2007). Nevertheless, political support is not necessarily favorable for Islamic banking development. This can be learned from the failure of Islamic banking movement in Pakistan. Even though this movement was geared by the government, it also ended up with a failure due to many factors including no alternative model to replace the previous system, socio-imbalance economic system, lack of trust towards banking institutions, effects of globalization and privatization of the economy of the country (Mansoor Khan and Bhatti, 2006).

At the same time, Islamic financial products are not controversial free. Even though various Shariah contracts have been applied as Islamic products, some of them are criticized because of high prices in comparison to conventional counterparts (Amin et al., 2016). Moreover, Islamic products are also being accused as to have similarity with conventional one, particularly when Islamic financial institutions prefer to replicate conventional products, rather than innovate a new one (Syed and Omar, 2017). All of these did not only worsen public perception towards Islamic institution, as there would be a possibility for Islamic product to be declared as non-Shariah compliant by the society (Ishak, 2018b).

While many players in this industry are moving forward with new innovations, policies and regulations in order to improve Islamic finance as the best alternative to conventional as well as to sustain this industry in this modern financial system, it is worth to learn from basic principles of Shariah on how its rulings should be implemented. Therefore, this paper aims to explore how the principle of *tadarruj*, one of Shariah main principles and its application within Islamic finance. Since this paper provides a philosophical perspective over the concept of *tadarruj* in Islam, it may be useful for all Islamic finance players including regulators, practitioners and scholars, particularly to introduce new policies, to develop products and to expand the operation of Islamic finance industry.

## 2. The Concept of *Tadarruj* in Islam

Historically, Shariah rulings were not revealed at once as the process took the duration of 23 years, by involving two stages that happened in Mecca and Medina. This concept of the duration is known as *tadarruj* process. Basically, *tadarruj* refers to the gradual phases of Qur'an revelation, which descending from Jibril (Peace Be Upon Him) to the Prophet Muhammad (Peace Be Upon Him) (Al-Qahtan, 2006). This process aims to ensure the rules in Islam are compatible with the current circumstance. For example, at the period of Mecca, the majority of ruling emphasized the general element of faith and humanity with regard to the reality at that time, especially when people had diverted from the Abrahamic teaching, as well as a lack of morality within society (Al-Qahtan, 2006).

During the period of Medina, the rulings still occurred in a gradual approach even though most of them have been revealed and practiced in detail. For examples, during the first year at Medina, *adhan* (call for prayer), *jihad* (holy war) and the obligation of matrimonial issues such as *nikah* (marriage), *nafaqah* (maintenance) and *walimah* (wedding ceremony) are among the Shariah rulings that have been practiced (Al-Ashqar, 2012). Subsequently, the second year has witnessed the revelation of Islamic rulings through the

practices of *siyam* (fasting), *solah al-'Aydain* (Muslim prayer during Eid al-Fitri and Eid al-Adha), *zakat* (giving alms), the change of *qiblah* (direction) for Muslim from the *Bayt al-Maqdis* to the *Kaaba*, and the distribution of *ghanimah* (spoils of war) for Muslim armies. The following year of rulings including the provision of *mirath* (inheritance), *talaq* (divorce), *qasr* (shortening the prayer) and *solah al-Khauf* (performing prayer in fear condition) (Al-Ashqar, 2012). Besides, some verses were revealed due to special cases which experienced by the companion of the Prophet (PBUH), including the prohibition of *khamr* (alcoholic drinks) (Mohamad et al., 2017). In more details, its prohibition has involved three stages of implementation: (i) indicating negative elements in alcohol against its benefits, (ii) followed by prohibiting prayer when drunk, and (iii) eventually the mandatory prohibition (Al-Qardāwi, 1980).

In fact, the concept of *tadaruj* aims to ensure Muslims to have the capability to follow the obligation of Shariah calmly, especially for newcomers. This indicates the flexibility of Islam in terms of fulfilling human's needs as well as achieving the wisdoms behind Shariah rulings (Zaidān, 1968). While Shariah rulings have been finalized through revelation, their implementation still needs a step-by-step approach. In fact, Shariah rulings need to be understood by the people, and their implementation must begin with the easiest adaptation, and gradually move to the more difficult stages (Al-Zuhaylī, 2000). Thus, the concept of *tadaruj* must be continuously applied in today's era in order to ensure the credibility and relevancy of Shariah law to human's life.

### 3. Modern Islamic Finance: Emerging, Growing and Challenging

As a response to western capitalist banking system that had widely spread in Muslim world, particularly at the end of colonization era, many Muslim scholars and Muslim economists had proposed several theoretical Islamic banking models (Iqbal and Mirakhor, 2007). Because of conventional finance including banking sectors, insurance, and financial market are based on interest system, the emergence of Islamic finance is urgently needed. Eventually in 1963, the Mit Ghamr Saving Bank marked a successful history as a pioneer of Islamic finance institution (Iqbal and Mirakhor, 2007). The same year has also witnessed another establishment of *Tabung Haji* (Pilgrims Fund), with an idea that money for pilgrimage should be free from *riba* (Tabung Haji, n.d.).

A decade after its first appearance, Islamic finance industry has moved to a new stage, in which its institutions were able to provide comprehensive financial services. In 1975, Dubai Islamic Bank (DIB) was established, it was followed by the Faisal Islamic Bank of Sudan (1977), the Faisal Islamic Bank of Egypt (1977), and the Bahrain Islamic Bank (1979) (Ariff, 1988). Interestingly, in 1978, Luxembourg is reported to introduce its first Islamic financial institution, which simultaneously making it as a pioneer in non-Muslim countries (ISRA, 2010a).

The 1980s has marked the rapid progress of the Islamic finance industry, as many Islamic banks and takaful companies have been launched in Egypt, Sudan, Gulf countries, Pakistan, Iran and Malaysia (Ishak, 2018b). In addition, many corporations have been established to support and to promote corporation between countries such as Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) in 1990, the General Council of Islamic Banks and Financial Institutions (CIBAFI) in 2001, the Islamic Financial Services Board (IFSB) in 2002, the International Islamic Financial Market (IIFM) in 2010, and the International Islamic Rating Agency (IIRA) in 2005 (ISRA, 2010a).

On one hand, Islamic finance has proven its growth and its resilience in modern financial system as a competitive sector. Nevertheless, on the other hand, there were difficulties and failures of its institutions. Even Mit Ghamr Saving Bank, the first Islamic banks ended up with a failure because of the government's hostility towards Islamic identity (Iqbal and Mirakhor, 2007). Nevertheless, political support is not necessarily favorable for Islamic finance development. This can be learned from the failure of Islamic finance movement in Pakistan. Even though this movement was geared by the government, it also ended up with a failure due to many factors including no alternative model to replace the previous system, socio-imbalance economic system, lack of trust towards banking institutions, effects of globalization, and privatization of the economy of the country (Mansoor Khan and Bhatti, 2006).

Meanwhile, economic distress could negatively affect Islamic financial institutions, even its impact could be worse than conventional institutions. For example, Turkey 2001 economic crisis has devastated Islamic banking institutions, as one of them, Ihlas Bank was declared bankrupt because of a liquidity problem. Since

deposits of Islamic banking institutions were not covered by a deposit insurance scheme, the bankruptcy of Ihlās caused a chain reaction towards other Islamic banks, where depositors were panic and withdraw their money; even though there were also 20 conventional banks experiencing failure during that crisis (Yanıkaya and Pabuçcu, 2017).

Therefore, adopting Islamic finance in modern system is easier to be said than done. In fact, any effort to replace interest-based system with Islamic one must be carried out strategically. This is because today's interest is not a business matter between individuals, since it is a complex system that strongly embedded in country financial system, including Muslim countries. While Islamic finance aims to follow all Islamic rules on finance and business activities, particularly to avoid *riba*, Qur'anic approaches in dealing with this issue should not be neglected.

#### 4. *Tadarruj* in Islamic Finance: Case Studies

To strengthen the analysis on this topic, it is worth to explore several case studies that can be related to the principle of *tadarruj*. Within the limitation of this study, it presents two case studies as follows:

##### 4.1 *Tadarruj* in *riba*

It is learned that the main purpose of Islamic finance is to remove *riba* in the financial system. Exploring the Qur'an and the Hadith, it can be concluded that *riba* is explicitly prohibited. Also, since the impacts of *riba* are significantly bad, Islam enlarges the circle of the prohibition: who involve with *riba*, whether directly or indirectly, are equally at fault (Muslim, 2000). Even though neither of the primary sources clearly specifies the justification beyond this prohibition, it can be understood that *riba* represents injustice and exploitation of human beings (Chapra, 2006). In more details, *riba* represents an exploitation towards overwhelming poor by a minority of the rich, as well as reflecting an unfair profit distribution between lenders and borrowers (Iqbal, 2010).

Even though the sin of *riba* is considered as among the serious one, it was not drastically banned due to its significant impacts towards individual, society, and nation. Instead, the Qur'an comes up with the principle of *tadarruj* which involves four stages as follows:

- *The First Stage: Riba Has No Blessing.*

It is argued that the first verse regarding *riba* was revealed through *surah* Rom in Mecca (Al-Şābūnī, 2000), as God says: And whatever you give *liyarbu* (to increase) within the wealth of people will not increase with Allah. But what you give in *zakah*, desiring the countenance of Allah - those are the multipliers (Rom: 39). This verse was revealed to Bani Thaḳīf, as their society were practicing *riba*, then it was followed by Quraisy society (Al-Qurṭubī, 2006). According to this verse, it is understood that *riba* would never give any positive contribution towards economic growth and social development because it has no blessing from God (Al-Zamakhshari, 2006). Even though *riba* might create some profits, but it would not truly increase the wealth. In contrast, *zakah* is recognized by God as an economic tool to raise wealth manifold (Chapra, 2006).

In terms of legal aspect of Shariah, this verse does not explicitly indicate the prohibition of *riba*, instead it merely shows that *riba* would not lead to God's reward (Al-Şābūnī, 2000). Even the word *liyarbu* in the verse has different interpretations among early scholars as some of them refer the term as contributing money with the intention to gain more return (Al-Ṭobarī, 1997); while others said it means giving money with the aim to show off; and another interpretation states the term as a gift with a condition of return (Al-Qurṭubī, 2006). However, this verse can be considered as an initial hint from God that *riba* would be prohibited later, because it does not bring benefits for human being. Thus, it could aim to wake the heart of Muslim from not involving with the immoral practice (Darrāz, 1951).

- *The Second Stage: Banning Riba for Bani Isreal*

Subsequently, the second verse was revealed at the early of Medina period (Al-Şābūnī, 2000). In *surah* al-Nisa', God says: And [for] their taking of *riba* while they had been forbidden from it, and their consuming of the people's wealth unjustly. And we have prepared for the disbelievers among them a painful punishment (Al-Nisa': 161). Based on this verse, God severely condemns *Bani Isreal* because they legalized *riba* in a form of tricky way hence enable them to own other property in a wrong way (Al-Qurṭubī, 2006). Even though the status of *riba* has been clearly mentioned in the book of *Torah*, its status has been changed by them. In fact, the Qur'an always emphasizes on one of the bad habits among *Bani Isreal*: they always prohibit permissible things and at the same time, allow prohibited one, including *riba* (Al-Zuhaili, 2007). As a consequence, Allah has punished them by prohibiting many permissible things (Al-Ṭobarī, 1997).

In terms of legal aspect, *riba* is considered as similar to a wrongfully devour of other property. Both are threatened by God with severe punishment (Chapra, 2006). This verse clearly censures *riba*, which its context specifically refers to *Bani Israel* who practiced *riba* as a part of their financial activities. In other words, the prohibition of *riba* in this verse comes up with the approach of *talwuh*, which is an implicit meaning. Therefore, this verse still opens different interpretations because sins of *Bani Israel* did not necessarily become sins for Muslims (Al-Sābūnī, 2000).

- *The Third Stage: Prohibiting Riba Jahiliyyah (Late Payment Interest).*

The next verse was revealed around the second or the third year after *Hijrah* (the prophet's migration). It is considered as the third stage of prohibition (Al-Sābūnī, 2000). In the *surah* Āli-Imran, God says: O you who believe, do not consume *riba*, doubled and multiplied, but fear Allah that you may be successful. And fear the Fire, which has been prepared for the disbelievers (Ali-Imran: 130). In fact, this verse specifically refers to *riba jahiliyyah* in which it had been widely practiced since pre-Islamic era. *Riba jahiliyyah* can be illustrated when the debt comes to be due, and creditors would give two choices to debtors: to settle now or to pay later with additional interest (Ibn Kathīr, 2008). In other words, it is a special penalty for the delay repayment of the debt. The word *adh'afan mudha'afan* (doubled and multiplied) reflects the element of exploitation in which the incapable and desperate borrowers are forced to pay more than their exact amount of debt. Thus, if Muslims fear God, they must leave this prohibited practice immediately (Al-Sa'dī, 2013).

In terms of Shariah legal aspect, this verse is clearer in terms of prohibiting *riba* because God mentions the word '*la*' which obviously means don't. Also, it specifically refers to believers whose are abided with God's orders (Al-Qurtubī, 2006). Nevertheless, this verse is not enough to declare *riba* as absolutely prohibited in Islam, because it still can be interpreted as a practice that can only be prohibited if it leads to exploitation like in the case of *riba jahiliyyah*.

- *The Fourth Stage: The Ultimatum Prohibition of Riba*

Finally, the final revelation appeared at nearly the end of the Prophetic period (Al-Sābūnī, 2000). As mentioned in verse 275 of *surah* al-Baqarah, Allah says: Those who consume *riba* cannot stand [on the Day of Resurrection] except as one stands who is being beaten by Satan into insanity. That is because they say, "Trade is [just] like *riba*." But Allah has permitted trade and has forbidden *riba*. So, whoever has received an admonition from his Lord and desists may have what is past, and his affair rests with Allah. But whoever returns to [dealing in *riba*] - those are the companions of the Fire; they will abide eternally therein. And if you do not, then be informed of a war [against you] from Allah and His Messenger. Allah further says in verse 279: But if you repent, you may have your principal - [thus] you do no wrong, nor are you wronged. For this time, the Qur'an comes up with several verses about *riba*, which make the status of it as a definite clear, as God mentions that a person who involves in *riba* is equal to someone who is being influenced by Satan, since he is over-greedy to gain profit through prohibited way (Al-Qurtubī, 2006). Subsequently, God warns Muslims who are still involving in *riba* to fear Him by leaving the practice immediately. Otherwise, God would declare war to them. This is one of the signs of a prohibited action in Islam when the action is mentioned with a threat from God (Al-Qurtubī, 2006). Finally, these verses provide special guidelines in dealing with some related issues. Firstly, for those who have already involved in *riba*, they still deserve the principal amount of debt. Secondly, if borrowers are incapable to pay, it is suggested to extend the period. However, it is highly recommended to waive the debt.

Since these verses are very clear in manifesting the status of *riba* in Islam, not surprisingly all scholars are in consensus that *riba* is absolutely forbidden. In fact, there is no difference between small and huge amount, capable or incapable borrowers, as far as it is a loan begets an advantage, it is considered as *riba* (Ibn Qudāmah, 1997). To conclude, it is understood that the prohibition of *riba* took gradually, in which this approach seems to be similar with the ban of *khamr* (alcohol). In fact, both significantly cause negative towards individual, family, society and country. It is interesting to note that the final verses of *riba* are argued by some scholars as the last verses of the Qur'an (Al-Qaḥṭān, 2006). Thus, it should be learned that dealing with *riba* issues need to be pragmatic and strategic, particularly when it has long been practiced as a tradition or embedded as a system. Even though the Shariah rules have been finalized in terms of revelation, their implementation still needs a step by step approach (Al-Zuhaylī, 2000).

Even though there are limited studies regarding the concept of *tadarruj* in Islamic finance, it has been already applied as a *fatwa*. For example, in 1980s the majority of Muslim jurists urged Muslim employees in

conventional banks to find alternative work for the sake of an income ‘clean’ from *ribā*. However, establishing a Shariah-compliant substitute for interest-based banking requires skilled personnel. Therefore, at a time when Islamic banks had not been established, or were extremely rare, other scholars preferred to advise Muslims who had qualms about their involvement in banking to make the intention to sharpen their technical knowledge, in order later to apply it in Islamic banks (Laldin et al., 2013).

#### 4.2 Islamic Banking Development in Malaysia

It is argued that Malaysia represents among the leading countries in Islamic finance industry. With 16 Islamic banking institutions competitively operating in the country, representing almost 22% of the total national banking sector, this country is recognized as one of the largest Islamic banking industries in the world. Moreover, it is claimed that Malaysia is the first country that establishes the Islamic Inter-Bank Money Market (IIMM), the fully-fledged Islamic stock broking company, the corporate Sukuk (Islamic Bond) and the Islamic Unit Trust (Shaharuddin, 2012). However, all of them could not be achieved without appropriate approaches carried out either by the government and Islamic finance players, particularly to gradually apply Shariah elements into this industry. In this regard, two aspects of Malaysian experience can be studied as follows:

- *The regulation framework*

It is learned from the failure of 1980s Islamic finance reform in Pakistan that a comprehensive alternative system of finance is crucially needed in order to replace the conventional one. Banning interest in complicated financial system would not be successful merely through political slogan (Mansoor Khan and Bhatti, 2006). Instead, alternative regulations are crucial for establishing and sustaining Islamic finance industry. Since Islamic finance practices are considerably different than the conventional, the former needs a special regulation (ISRA, 2010a). In more details, since Islamic products are based on sales, lease, partnership, and they must be free from *riba*, *gharar*, and *maisir*, they could not efficiently operate under conventional banking laws.

In this regard, it can be learned how the regulation of Islamic finance in Malaysia has evolved to facilitate this industry. At the beginning, Islamic finance is regulated under Islamic Banking Act 1983 (IBA), the Takaful Act 1984, the Banking and Financial Institutions Act 1989 (BAFIA). Nearly after two decades later, all of these acts were replaced by Islamic Financial Service Act 2013 (IFSA). IFSA was introduced as a comprehensive legal framework that is consistent with Shariah in all aspects of regulation and supervision, from licensing to the winding-up of an institution (Yusof, 2017). Also, this framework explains in detail the stakeholders’ scope of duties and their responsibilities, which helps Islamic financial institutions to achieve the objective of Shariah compliance (Laldin and Furqani, 2018).

Based on this process, it shows the government of Malaysia has considered a gradual approach in developing the regulatory framework for Islamic finance. It took 30 years since its first institutions to provide a comprehensive framework for Islamic finance in this country. This approach is in line with the principle of *tadarruj* in establishing Shariah rulings to ensure they are applicable. In regard with Islamic finance, *tadarruj* in introducing its regulatory framework is vital to ensure sustainability and competitiveness within this industry. As result, today Malaysia is claimed to be among the most regulated model of governance for Islamic finance (Ahmad and Ishak, 2020).

- *Tightening Shariah requirements*

Adopting Shariah rulings in modern financial system is very challenging, particularly at the beginning of Islamic banking industry. As a result, so-called controversial practices were preferable as Islamic financial instruments. For example *bay’ al-Inah* which is known as selling an item for a delayed payment, then buying it back at a lower price in cash (ISRA, 2010a). In practice, *bay’ al-Inah* is utilized both as a direct financing between Islamic banks and their customers and as a combination with other contracts like *Bay’ Bithaman Ajil* (BBA). In terms of Shariah status, *bay’ al-Inah* has received fierce criticism from both classical and contemporary Muslim scholars. While the majority of scholars rejected this contract by claiming it as a trick of *riba*, some early scholars like Ibn ‘Umar, Abu Yusuf, Shafi‘i, and Zahiris allowed this contract (Lahsasna, 2014). As for modern discussion, the International Islamic Fiqh Academy (IIFA) through its resolution has rejected *bay’ al-Inah* from becoming part of financing instrument in Islamic banks (IIFA, 2006). Another organization that takes a similar view to IIFA is AAOIFI (AAOIFI, 2010). As a result, this contract was not allowed in the Middle Eastern countries. Nevertheless, Shariah Advisory Council (SAC) of Bank Negara Malaysia has come up with a different approach by allowing *bay’ al-Inah* for Islamic banks in Malaysia. This decision was justified with the general verse of permitting *bay’* (sale) in the Qur’an, as well as the view of early scholars who allowed this contract (BNM, 2010). In the early Islamic banking history in Malaysia, it is argued

that *bay' al-Inah* has dominated as a financial instrument. With many restrictions in terms of regulation, *bay' al-Inah* became an efficient instrument to provide liquidity for Islamic banks (Fairooz et al., 2015). Nevertheless, over 20 years, BNM has gradually tightened the parameters of *bay' al-Inah* to ensure it strictly follows the view of al-Shafie, particularly on the requirement for both contracts of sale as must be executed separately. It is claimed that this approach has successfully encouraged Islamic banks to replace this instrument with other less controversial products (Ishak, 2019).

The review of Islamic deposit could be another example of the application of *tadarruj*. At the early stage of Islamic banking in Malaysia, most of its institutions offered deposit services based on the contract of *wadi'ah* (safekeeping). However, practically, it is different from the original concept of *wadi'ah* in which the custodian (Islamic bank) is entitled to use depositor's money, with the condition of immediate return when it is requested as well as the money must be guaranteed. At the same time, the Islamic bank can give *hibah* (gift) based on its discretion to its depositors. This in fact should be allowed as far as the *hibah* is not being bound by the contract. These elements change the concept of *wadi'ah* into *wadi'ah yad dhamanah* (guaranteed safekeeping), which it should be treated as *qard* (loan) from depositors to Islamic banks (Lahsasna, 2014). It has become a popular instrument not only for Islamic banking institutions, but also other saving institution like Tabung Haji (Tuan Badrul Hisyam, 2018). Over the period, it is argued that giving *hibah* to depositors has become habitual and be justified as *maslahah* (public interest) in respect of the progress of Islamic banks (Lahsasna, 2014). As a response, in 2018, BNM has issued a special guideline on *qard*, which requiring Islamic banks from not using the words *wadi'ah* or *wadi'ah yad dhamanah* for deposit products that are structured based on *qard*. Moreover, Islamic banks must ensure that the *hibah* information must be based on the actual *hibah* rate. Also, Islamic banks must provide a clear disclaimer that a customer may or may not receive any *hibah* for *qard* deposits. In addition, they must avoid from providing historical *hibah* in which it is referred as an indicative or prospective rate of return (BNM, 2018a). The element of *tadarruj* can be identified when BNM has provided an opportunity for Islamic banking institutions to strengthen Shariah aspects on their deposit products before it is tightened with a special regulation.

Lastly, is the case of the expenses of *rahn* (pawn), one of Islamic financing instruments provided by Islamic financial institutions. It is understood that this instrument combines three main contracts, namely *qard*, *wadi'ah yad damanah*, and *ujrah* (fee). As for *qard*, it represents the core service of this product or a loan provided for a customer. At the same time, the customer pawns his or her item as collateral under the concept of *wadi'ah yad damanah*. Finally, *ujrah* is imposed as a special fee for safekeeping the item. In Malaysia, *rahn* products are not only limited through Islamic banking institutions, as they also cover other institutions including socio-economic institutions and companies (Sharif et al., 2013). Over the period, many studies have found that *rahn* products are more attractive and charitable in comparison with conventional pawn (Nor Surilawana et al., 2014). While it is undeniable for the role of *rahn* in socio-economic development to provide an immediate financing service, there was Shariah issue regarding its *ujrah*. Even though the *ujrah* does not directly belong to the loan given in conventional pawn, it is unclear about how this *ujrah* is charged. In practice, the safekeeping charge has been calculated based on the certain percentage according to the value of the pledged item. In more details, this charge could be daily or monthly basis until the settlement of the debt. Thus, the *qard* provided through *rahn* has argued to contain the element of *qard jar naf'an* (loan which begets an advantage), which is classified as part of *riba*. As a result, in 2018 BNM has issued a new policy regarding the practice of *rahn*. The policy has clearly mentioned that any charge imposed to customers must be based on the cost of safekeeping, not the percentage. To be precise, it must be based on the expenses incurred directly to the maintenance of the pledged item. These include safekeeping cost, documentation, liquidation and discharging of collateral. While the change of BNM's decision could also be understood as the change of *ijtihad* (deductive process to produce rulings) because of the different circumstance, the concept of *tadarruj* is applied since BNM has provided some space for Islamic banking institutions to revive its practice on *rahn* (BNM, 2018b).

## 5. Conclusion

In general, it is unanimously agreed by scholars that rules and practices in Islam lead to human well-being, known as *maslahah* (public interest). This element represents the essential elements of human's life, including the exercise of one's livelihood, and the development of the emotional and intellectual qualities needed to live an effective life (Al-Shātībī, 2004). In other words, what is permitted would bring benefits for humans while

in contrast, what is prohibited would cause harm. In this regard, Islamic rules are purposive in nature, which precisely serves particular purposes that are either explicitly present in, or can be derived from, the fountainheads of the sources of Shariah (Adis, 2014).

Nevertheless, at the stage of implementation, many aspects need to be considered particularly on how far a rule can achieve its objective in the real circumstances. The outcome of the rules occasionally could be different from its original objective. In more details, while a permissible practice should originally intend to bring *maṣlahah*, its implementation in certain situations could lead to *mafsadah* (harm) (Ishak, 2018a). Also, even though a prohibited action should originally cause *mafsadah*, total banning would also bring to similar or greater *mafsadah*. In this regard, it is crucial to consider the consequences of any rule in an actual situation before the rule can be fully implemented (Al-Shātībī, 2004).

In regards with interest which represents the meaning of *riba*, it is undeniable that it has caused harm for individual, society, country and humanity. Even though interest might bring *maṣlahah* in terms of profits in some respects, their *mafsadah* are more dominant in terms of exploitation, injustice and disputes. Banning interest does not only capable to stop unfairness and exploitation, rather this can encourage risks through business and financial activities among people (Zaman et al., 2018). Nevertheless, efforts to replace conventional finance are easier to be said than done. This is because, over the period, while Islamic finance has experienced a dramatic growth, there were difficulties, challenges, loss and even failures throughout its operations.

Therefore, it is crucial to establish and to implement Islamic finance pragmatically and strategically through the concept of *tadarruj*. By exploring the Qur'anic verses regarding *riba* issues, the banning of this sin took several stages which include various types of approach. Based on this lesson, it should be understood that the concept of *tadarruj* must be considered in order to establish and sustain Islamic finance as an alternative financial practice. These include the implementation of any rules as well as the improvisation of the current practice towards more Shariah compliant. In Malaysia, it is found that the element of *tadarruj* has been considered by the Government and regulator through the methods to introduce the first Islamic bank, to improve the regulation framework of Islamic finance, to tighten the regulation of *bay' al-'Inah*, to re-consider the Islamic deposit schemes and to revive the expense of *rahn*.

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