Background of the study

Mobilization of funds from savings-surplus units in the economy is an important task of a financial system. The purpose of a financial system is to facilitate the flow of funds so Islamic banking deposits are fundamentally structured in a different way than the conventional banking deposits. Each type of Islamic banking deposits, such as savings, demand, and timed deposits, is devised using the approved Shari’ah contracts such as qard, wadiah, murabahah, and mudarabah. These contracts are opposed to the conventional concepts, as they are based on the concept of a ‘lender-borrower’ relationship. In addition, the Shari’ah approved contracts are unique as they feature a different nature of risk and return. Islamic banks are engaged in mobilizing savings from a unique group of savers by offering Shariah compliant products that also vary with respect to other dimensions of return, risk, liquidity, maturity, safety, stability and the like. Deposits in common parlance are backed by the motive of safekeeping. Islamic law also deals with the notion of deposits in the framework of Amanah. However, bank deposits cannot be put into this category, since a bank invites and seeks deposits for its own interests. The banks’ intention while accepting currencies as deposits is not the safekeeping but the utilization thereof, and, on demand, to return it in full. The general consensus, therefore, is that where the deposit is a sum of money or something, which is perishable through use, shall be deemed to be a loan if the depository is permitted to utilize it. In addition, if it is clear that a bank deposit is a loan, it means that any increase paid by the bank over the sum deposited constitutes Riba. Conventional banks broadly invite current account deposits, time deposits, and savings deposits.