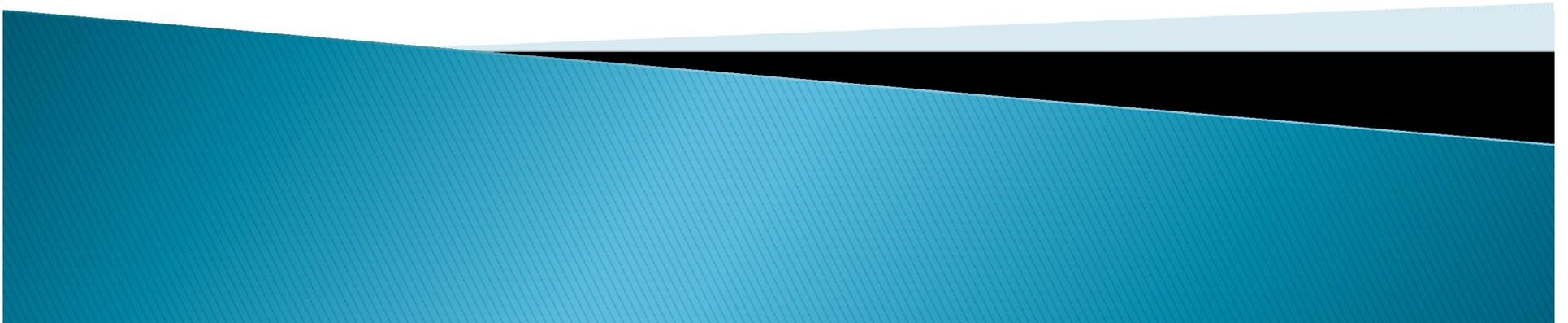


Wadiah & Mudarabah

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ISLAMIC CURRENT ACCOUNTS

- ▶ Trust of Assets at time of the Prophet
- ▶ Trust used to be taken by Zubair bin Al Awwam (RA)
- ▶ He requested that people deposit on basis of loan and not simply on Trust
 - He was not liable if anything beyond his control occurred to the Trust (Amanah)
 - He would be liable if it was a loan (Qard)



WADIAH YAD AL DHAMANAH

- ▶ Wadiah Yad al-Dhamanah means safekeeping with guarantee
- ▶ Depositor places funds with bank for safe-keeping and facility access
- ▶ Bank acts as custodian : Trustee & Guarantor
- ▶ Funds utilised by bank for financing activities
- ▶ Any profit resulting from the employment of these funds accrues to the bank and if there is any loss, it is also borne by the bank
- ▶ Depositor can withdraw at any time. In effect, deposit is on the basis of qard (loan)
- ▶ No returns are due to the depositor due to risk of Riba in return
- ▶ Bank charges fees for use of facilities: Cheques, Transfers etc

WADIAH YAD AL DHAMANAH

Salient Features

- ▶ The custodian is entitled to use the deposited funds at its own discretion for any investment in Shari'ah-compliant business, irrespective of the consent of the depositors as he is guaranteeing the return of the deposits and is liable for any damage or loss.
 - ▶ The risks taken by the custodian permit him to utilise the deposit as gains come with the corresponding risks. In such cases the bank is not required to pass on any profit to the depositors, as they are not subject to risks.
 - ▶ Since this contract is similar to a loan, it cannot generate any pre-agreed benefit/income to the depositor, over and above the principal amount of deposit. Failure to ensure the above will be tantamount to riba.
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Mudarabah

- ▶ This is a kind of partnership where one partner gives money to another for investing in a commercial enterprise.
 - ▶ The investment comes from the first partner who is called "**Rabb-ul-Maal**" (Investor)
 - ▶ The management and work is an exclusive responsibility of the other, who is called "**Mudarib**" (Working Partner)
 - ▶ Profit is shared as per agreed ratio
 - ▶ In case of Mudarbah all losses are borne by Rabbul- Maal
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Types of Mudarabah

1. Restricted Mudarabah

- ▶ Rabb-ul-Maal may specify a particular business or a particular place for the mudarib. In which case he shall invest the money in that particular business or place

2. Unrestricted Mudarabah

- ▶ Rabb-ul-maal gives full freedom to Mudarib to undertake whatever business he deems fit. Mudarib is authorized to do anything normally done in the course of business



Essential Features of Mudarabah

- ▶ **Rabb-ul-Maal has authority to:**
 - a) **Oversee the Mudarib's activities and**
 - b) **Work with Mudarib if the Mudarib consents.**



Capacities of Mudarib

- ▶ **Trustee:** The money given by Rabb-ul-maal (investor) and the assets required therewith are held by him as a trust.
- ▶ **Agent :** In purchasing goods for trade, he is an agent of Rabb-ul-maal.
- ▶ **Partner:** In case the enterprise earns a profit, he is a partner of Rabb-ul-maal who shares the profit in agreed ratio.
- ▶ **Liability:** If the enterprise suffers a loss due to his negligence or misconduct, he is liable to compensate the loss
- ▶ **Employee:** If the Mudarabah becomes Void due to any reason, the Mudarib is entitled to get a fee for his services.



Capital of Mudarabah

- ▶ **The capital in Mudarabah may be either cash or in kind.**
- ▶ **If the capital is in kind, its valuation is necessary, without which Mudarabah becomes void.**



Profit & Loss Distribution

- It is necessary for the validity of Mudarabah that the parties agree, right at the beginning, on a definite proportion of the actual profit to which each one of them is entitled.
- They can share the profit at any ratio they agree upon.
- However in case the parties have entered into Mudarabah without mentioning the exact proportions of the profit, it will be presumed that they will share the profit in equal ratios.
- Some incentives may be given to the Mudarib.



Profit & Loss Distribution

- ▮ **Apart from the agreed proportion of the profit, the Mudarib cannot claim any periodical salary or a fee or remuneration for the work done by him for the Mudarabah.**
- ▮ **The Mudarib & Rabb-ul-Maal cannot allocate a lump sum amount of profit for any party nor can they determine the share of any party at a specific rate tied up with the capital.**



Termination of Mudarabah

- ☞ **Mudarabah can be terminated any time by either of the two parties by giving notice.**
- ☞ **If Mudarabah was for a particular term, it will terminate at the end of the term.**
- ☞ **Termination of Mudarabah means that the Mudarib cannot purchase new goods for the Mudarabah. However, he may sell the existing goods that were purchased before termination.**



Termination of Mudarabah

- ☞ If all assets of the Mudarabah are in cash form at the time of termination, and some profit has been earned on the principal amount, it shall be distributed between the parties according to the agreed ratio.
- ☞ If the assets of Mudarabah are not in cash form, they will be sold and liquidated so that the actual profit may be determined.
- ☞ If there is a profit, it will be distributed between Mudarib and Rab-ul-Maal.
- ☞ If no profit is left, Mudarib will not get anything.



Diff b/w Musharakah & Mudarabah

Musharakah

- ▶ In Musharaka both of the partners invest
- ▶ Both parties can work

Mudarabah

- ▶ In Mudarabah one party invests (Rabbul-Maal) and other party works (Mudarib)
- ▶ Profit is shared as per agreed ratio
- ▶ In case of Mudarabah all losses are borne by Rabbul- Maal



Mudarabah in Banking

- ▶ **Deposits - The Bank as Mudarib**
- ▶ Profit from the Mudarabah activity is shared between the Bank (as Mudarib) and the investment account holder (as Rabb-ul-maal) in a pre-agreed ratio
- ▶ The Bank does not bear any loss but remains responsible for negligence
- ▶ The Bank may receive from its investors compensation (Mudarib fees) in return for management of their funds
- ▶ The Bank is bound to return the capital to the investors after deducting any losses or Mudarib fees at the time of winding up the contract



Mudarabah in Banking

- ▶ **Investments - The Bank as the Rabb-ul-maal**
- ▶ **Profit from the Mudarabah activity is shared between the Bank (as Rabb-ul-maal) and the Mudarib in a pre-agreed ratio**
- ▶ **The Bank will bear all the loss unless the Mudarib violates the agreement**
- ▶ **The Bank will pay to the Mudarib, compensation (Mudarib fees) in return for management of its funds**
- ▶ **The Mudarib is bound to return the capital to the Bank after deducting any losses or Mudarib fees at the time winding up of the contract**

