

Is it permissible for a Muslim to buy stocks of Banks and other Financial Institutions?
Some friends insist that if one does so, then he is encouraging riba.

Reply

Is the question relating to

(1) the actual stock (Share ownership) in interest charging commercial banks and financial institutions or

(2) to the stock of other institutions and business entities that is purchased and sold by banks and financial institutions.

If the question is relative to (1), then that is clearly impermissible since such institutions primarily function through earning interest on loans that it extends to clients, as well as encourages the generation of interest.

If the question is relating to (2), then that is a very complex matter that requires evaluation of the institutions whose shares are being bought and sold or held in particular portfolios for investment purposes.

In the case of (2)

Is the entity engaging in halal trade or in the manufacture of halaal items?

What percentage of interest earnings (and other haraam earnings) does such a company have?

What are the formats in which the interest is earned?

What amount of interest is paid on operational capital or loaned capital?

What other interest disbursements does the company make?

Is the format of trading in these shares and stock done in Islamically permissible methods?

Is the institution whose shares are purchased a subsidiary company or a holding company? If yes, what are the associated income streams from the holding company or the subsidiaries?

What is the nature of the products sold or manufactures by the business concern?

What is the client profile of the business? Does the business supply a limited amount of clients a product that will directly be used in the promotion of Haraam?

These are the basic questions which require to be answered before a more detailed technical profiling of the companies are done.

I cannot blankly answer with a yes or no since the answer requires independent analysis .

Jazakallah

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