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The Transformation of Interest Prohibition: A Comparative Study of Riba (Usury) in Contemporary Financial Systems

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Abstract

This study aimed to explore the transformation of the concept of riba (usury) within contemporary financial systems, specifically how Islamic jurisprudence has adapted to modern economic practices. The analysis also aimed to understand the evolving interpretation of riba and its implications for Islamic and global financial markets. A comparative analysis was adopted, integrating qualitative methods such as document analysis and a case study of financial systems. This study examined historical and modern interpretations of riba, with a specific focus on the transition from traditional gold and silver standards to fiat money systems. The results showed that the adaptation of riba in modern financial systems required significant transformation, particularly in response to the transition from commodity-based to fiat money. The analysis identified key trends in how riba was reinterpreted within the context of contemporary financial systems as well as discussed the challenges and solutions proposed by Islamic scholars. Additionally, it contributed to the existing body of knowledge by providing a nuanced analysis of how the prohibition of riba was applied in contemporary financial systems, connecting historical perspectives with modern practices. The analysis provided new insights into the dynamic relationship between traditional Islamic financial principles and the evolving global financial landscape. It also showed the importance of continuous investigation of riba in the context of contemporary financial systems. This study suggested that ongoing discourse among Islamic financial practitioners and scholars was crucial for developing solutions to support both traditional principles and contemporary financial realities.

Keywords: Riba; Islamic Financial Principles; Fiat Money; Contemporary Financial Systems; Islamic Law.

Abstrak

Penelitian ini bertujuan untuk mengeksplorasi transformasi konsep riba dalam sistem keuangan kontemporer, khususnya bagaimana hukum Islam beradaptasi dengan praktik-praktik ekonomi modern. Analisis ini juga bertujuan untuk memahami interpretasi riba yang terus berkembang dan implikasinya terhadap pasar keuangan

Islam dan global. Analisis komparatif diadopsi, dengan mengintegrasikan metode kualitatif seperti analisis dokumen dan studi kasus sistem keuangan. Penelitian ini mengkaji interpretasi historis dan modern tentang riba, dengan fokus khusus pada transisi dari standar emas dan perak tradisional ke sistem uang kertas. Hasil penelitian menunjukkan bahwa adaptasi riba dalam sistem keuangan modern membutuhkan transformasi yang signifikan, terutama dalam merespon transisi dari sistem uang berbasis komoditas ke sistem uang kertas. Analisis ini mengidentifikasi tren-tren utama tentang bagaimana riba ditafsirkan ulang dalam konteks sistem keuangan kontemporer serta membahas tantangan dan solusi yang diajukan oleh para cendekiawan Islam. Selain itu, penelitian ini memberikan kontribusi terhadap pengetahuan yang ada dengan memberikan analisis yang bernuansa tentang bagaimana larangan riba diterapkan dalam sistem keuangan kontemporer, menghubungkan perspektif historis dengan praktik-praktik modern. Analisis ini memberikan wawasan baru mengenai hubungan dinamis antara prinsip-prinsip keuangan Islam tradisional dan lanskap keuangan global yang terus berkembang. Penelitian ini juga menunjukkan pentingnya investigasi berkelanjutan terhadap riba dalam konteks sistem keuangan kontemporer. Penelitian ini menunjukkan bahwa wacana yang sedang berlangsung di antara para praktisi dan cendekiawan keuangan Islam sangat penting untuk mengembangkan solusi untuk mendukung prinsip-prinsip tradisional dan realitas keuangan kontemporer.

Kata Kunci: Riba; Prinsip Keuangan Islam; Uang Kertas; Sistem Keuangan Kontemporer; Hukum Islam.

Introduction

The development of the global market, particularly in the context of modern financial systems (Abuselidze et al., 2020; Clarke, 2019; Pajak et al., 2016), has introduced various financial practices that often conflict with Islamic views on riba (usury) (Bayindir & Ustaoglu, 2018; Erdem, 2017). This is evident in traditional financial systems, where interest-based transactions and financial instruments such as bonds that generate interest are common (Marszk & Lechman, 2021; Šeho et al., 2020). However, all these practices are considered forms of riba, which is strictly prohibited in Islam (Azoitei, 2020). For instance, the interest charged on traditional bank loans is a sort of riba that is prohibited since it includes unfair profit and exploitation (Ishak et al., 2021). Consequently, Muslims face a dilemma while participating in global financial systems driven by usurious practices (Umair Riaz & Monk, 2017), necessitating solutions compliant with Shariah principles.

There are several challenges when the concept of riba needs to be adjusted to the ever-evolving global market context (Benaicha, 2020). Despite efforts to introduce Shariah-compliant profit-sharing concepts such as *muḍārabah* and *mushārahah*, challenges remain in distinguishing between permissible and usurious financial practices (Anwer et al., 2020; Hanif & Ayub, 2022). The challenges are compounded by the misconception or generalization that all banking products are usurious, potentially leading to misunderstandings in the use of Islamic law in the global economy (Alwazna, 2017; Zoli et al., 2017). As a result, the main issue is how to justify the legality of modern financial products while preserving the integrity of Shariah principles.

Several investigations indicate that the concept of *riba* has been adapted to Islamic law through measures such as profit-sharing in business financing, known as *muḍārabah* and *mushārah* (Siddique, 2022). These practices are more related to Shariah principles as they do not include interest and are focused on fair profit-sharing. For instance (Harahap & Risfandy, 2022), El-Gamal (2006) found that *muḍārabah* and *mushārah* contracts were legitimate alternatives to usurious practices in Islamic banking (Syed & Omar, 2017). This strategy shows that *riba*-free financial systems can be practically used in the modern economy, but challenges remain in relating the practices with global market dynamics (Farooq & Selim, 2019). In this study, *riba* is understood through historical sociological methods and hadith analysis, which necessitate the categorization and filtration of hadiths related to *riba* (Maali et al., 2024). Previous investigations have attempted to explain *riba* from historical and sociological perspectives in order to contextualize usurious laws (Lawal, 2016), but there were gaps in the application of such understanding to modern transactions. Additionally, perspectives on *riba* vary based on time and place, complicating the consistent use of rules. Despite extensive reviews, there remains a gap in the study addressing the adaptation of *riba* in the modern global market, particularly in terms of idiomatic interpretation and introduction to contemporary financial products.

Based on the above description, this study aims to analyze how the concept of *riba* is understood and used in the context of the modern global market, using a historical-sociological method to the hadiths and verses related to *riba* (C. Köbis et al., 2020). It also seeks to categorize and filter hadiths relevant to usurious transactions, as well as to conduct a detailed historical analysis of buying and selling, debt, and trading patterns from the time of the Prophet Muhammad to the modern world (Mohsen & Mohi, 2024). Therefore, this study aims to provide a more comprehensive understanding of how Shariah principles can be used in contemporary financial systems without violating the prohibition of *riba* (Buallay, 2019), offering a nuanced perspective on the concept within the Islamic tradition.

This study argues that the concept of *riba* should not be viewed statically, but rather as a dynamic phenomenon that changes over time and within social contexts. The proposed hypothesis is that beliefs about *riba* and Shariah principles may vary based on ideological influences, social factors, and specific historical settings. As a result, an idiomatic historical-sociological analysis can provide a more comprehensive understanding of the use of Shariah principles in the modern global market, as well as guide financial practices toward compliance with Islamic law without disregarding global economic dynamics.

Methods

This study adopted a qualitative design with a literature review method to explore the concept of riba from a historical-sociological perspective. The literature review method was selected because it allowed for an in-depth analysis of both classical and contemporary texts to understand the development and interpretation of such practices across various social contexts (Bhat, 2020). The method was relevant as it facilitated a historical and social analysis of riba and the evolving views on the concept from the time of Prophet Muhammad to the modern global market era. Therefore, the study aimed to provide a comprehensive understanding of the development of riba in the context of financial and the global market.

Secondary data was collected from various sources, including the Qur'an, hadith, classical texts, reputable journals, and other relevant documentation. These sources were selected to ensure broad and in-depth coverage of Shariah and sociological perspectives on riba practices. The use of diverse sources offered an opportunity to compare and contrast different views, which was crucial in understanding the interpretations of riba (Bayindir & Ustaoglu, 2018).

This study adopted critical analysis, which allowed proper identification, evaluation, and interpretation of various perspectives on riba. A thorough examination of relevant texts was included to show how the concept was understood and used within different historical and sociological contexts. By using critical analysis, this study not only focused on describing facts but also assessed the implications and relevance of riba in contemporary financial practices. The method helped to unravel the complexities and variations in views regarding riba, providing clearer insights into the adaptation of Shariah to the dynamics of the global market.

Results and Discussion

The Original of Riba

The terms riba, *sharf*, and sale had consistent definitions (Asyari et al., 2022), but individual views of these terminologies might differ (Tajmir riyahi et al., 2020), leading to ambiguities and complications in diagnosing related issues. In Surah Al-Baqarah verse 275, the Qur'an remarked on the difficulties experienced by the polytheists and some Muslims when distinguishing between riba and sale, which impacted market practices (Kamali, 2017). The Qur'an did not explicitly define riba as a standard regulation because it was already a common practice before the existence of the holy book. Additionally, the prohibition of riba was mentioned in the Torah, indicating that the practice of usury was

already known and recognized as forbidden by society. Abu Bakr Al-Jassas and Ibn Qudamah defined riba as an increase in the exchange of measured and weighed goods caused by deferred payment or differences in quality. Riba is divided into two main categories, including riba originating from sale transactions (*riba fadhli*, *riba nasa/yad*, *riba nasi'ah*) (Siddique, 2022) and riba arising from debt transactions (*riba nasi'ah* and *riba jahiliyah*) (Suharto, 2018). The table below presented data coded based on key results about the various forms of riba and their differences from *sharf*.

Table 1

Category	Transaction Type	Type of Riba	Definition
Riba Qarḍ/ Duyūn	Debt Transactions	<i>Riba nasi'ah</i>	Increment due to deferred debt repayment.
		<i>Riba jahiliyah</i>	Excessive interest on loans.
Riba Buyū'/Sales	Sale Transactions	<i>Riba faḍl</i>	Increment in the direct exchange of similar goods.
		<i>Riba nasa/yad</i>	Delay in delivery of goods or payment.
		<i>Riba nasi'ah</i>	Increment due to delayed payment in sales.
Sharf	Currency Exchange	-	Exchange of currency with another (e.g., USD to PKR).

Source: Author interpretation

The data presented in the above table categorized riba based on the type of transaction and the form of increment that occurred, whether in the context of debt or sales. *Riba qarḍ* or riba in debt transactions, contained *riba nasi'ah* and *riba jahiliyah*, which was characterized by increments resulting from deferred payment or excessive interest. Riba in sales transactions included *riba faḍl*, *riba nasa/yad*, and *riba nasi'ah*. *Riba faḍl* occurred when there was an increment in the exchange of similar goods (Baur et al., 2018), *riba nasa/yad* covered delays in the delivery of goods or payment, and *riba nasi'ah* referred to delayed payments. On the other hand, *sharf* or currency exchange was described as a form of exchange that did not include increments but was rather a process of exchanging currencies based on prevailing exchange rates (J. Ahmed et al., 2018). This categorization provided a clearer understanding of how riba was identified and distinguished from sales and *sharf* practices within the context of Shariah (Sharma & Setia, 2015).

The development of riba from the time of the Prophet Muhammad to contemporary era showed several changes in the perceptions and practices influenced by monetary systems, particularly from the gold standard to fiat money (Sifat & Mohamad,

2018). The Hadith of the Prophet served as the primary basis for categorizing riba but its interpretation and application differ among scholars. For instance, in Surah An-Nisa verses 160-161, riba was strictly prohibited for the Jews, but such a prohibition was ignored and even circumvented in various ways. The historical exploration showed that the concept of riba in pre-Islamic times was heavily influenced by Jewish and Christian religious policies (Abedifar, 2019), which later shaped contemporary financial systems with usurious elements (Kamla & Alsoufi, 2015).

Several investigations have developed the understanding of Muslims regarding the prohibition of riba in the current global economic context (Kuran, 2018). In monetary systems, the shift from the gold standard to fiat money had a significant impact on how riba laws were interpreted and applied (Mustafa et al., 2016). Riba was currently understood throughout the entire financial systems, including banking and lending (Krichene & Ghassan, 2019), as opposed to just commodity-based transactions in the past (Abbasi & Aziz, 2023). This showed the importance of revising economic and financial regulations in Islamic countries to achieve Shariah compliance (Faizi, 2024). Additionally, a deeper understanding of the history of riba could promote more equitable (Ishaaq El-Mubarak et al., 2020) and sustainable economic reforms in accordance with the objectives of maqāsid sharīah.

Historical data and variations in the interpretation of religious texts were highly necessary. The use of classical sources, such as the interpretations of Al-Hafidz Ibn Kathir and texts from other holy scriptures, provided rich perspectives but did not cover the complex dynamics of the modern economy (Piketty, 2015). Furthermore, differences in the interpretation of usurious practices and their application to the fiat money systems could obscure a uniform understanding (Chadwick, 2022). This study was still unable to thoroughly explore how Muslims in various countries adopted or rejected the principles in the context of modern banking and financial systems.

Examining the impact of the fiat money systems on riba practices and the application of Islamic law in modern banking contexts was necessary. A comparative study between different countries with varied economic systems could provide broader insights into the adaptation and challenges of integrating Shariah principles. Moreover, it was essential to examine how Muslim communities integrated anti-riba principles into daily economic activities, particularly in the context of digitalization and fintech. Further investigations could also focus on analyzing Shariah banking policies that served as practical and sustainable alternatives in the continuously evolving global economic systems.

Integration and Adaptation of Riba in the Global Financial System

Despite considerable efforts to use Shariah-compliant principles, such as *muḍārabah* (profit-sharing partnerships) and *mushārah* (joint ventures), the integration and adaptation of riba (usury) continued to pose significant challenges within the global financial systems (Attahiru, 2022). In conventional banking practices, interest remained a central element, which directly contradicted the non-*ribawī* (interest-free) principles of Islam (Lai et al., 2017). Some countries and institutions have adopted Islamic financial models as alternatives, particularly *muḍārabah* (profits sharing based on mutual agreement) and *mushārah* (profits and loss distribution based on capital contribution). These models not only complied with Shariah but also offered flexibility and competitive profit potential in certain cases. However, challenges such as inconsistent regulations, lack of understanding, and the dominance of riba-based systems continued to hinder widespread adoption.

Global financial practices, including interest in conventional banking and other financial instruments, remained dominant in the current economic systems, showcasing the strong presence of *ribawī* principles (Farooq, 2019). However, significant efforts were underway to integrate Shariah principles by adopting *muḍārabah* and *mushārah* contracts as alternatives (El Islamy, 2016). The results showed that, while these principles offered Shariah-compliant, their full adaptation within global financial systems continued to face significant challenges. These challenges included regulatory barriers, the dominance of *ribawī* systems, and a lack of understanding of Islamic financial instruments among global market participants.

From an Islamic legal perspective, the adaptation of the global financial systems to non-*ribawī* principles played an important role in integrating a more ethical economy. *Muḍārabah* and *mushārah*, as Shariah-compliant financial instruments, offered structures avoiding interest and speculation, which were both prohibited in Islam (Abdul Razak & Saupi, 2017). These contracts showed justice and transparency in the distribution of profits and risks among the participating parties (Parris et al., 2016). However, the application of such principles in the global economic context required broader support, including increased awareness among financial industry players and legislation complied with Islamic law to counter the dominance of *ribawī* systems.

The development of financial instruments should include stringent oversight of Shariah compliance and risk mitigation mechanisms that comply with Islamic law (Noordin & Kassim, 2019). This comprised strengthening supervisory bodies that could monitor the integration and adherence to Shariah principles globally (Ullah et al., 2018). The integration of non-*ribawī* principles not only served to avoid riba but also contributed to broader

economic stability, as evident in various fatwas and scholarly decisions on Islamic financial principles (Fatmawati et al., 2022). Therefore, it was crucial for scholars and academics to continue updating and developing such instruments in line with contemporary economic needs.

An increasing number of financial institutions were adopting equitable profit and risk-sharing practices such as *muḍārabah* and *mushārah* in their operations. This impact remained limited to certain regions and institutions, particularly in Muslim-majority countries with supportive regulations for Islamic financial principles. However, global adoption was still far from optimal due to the aforementioned constraints, necessitating enhanced international cooperation and regulatory harmonization to expand the reach of non-*ribawī* principles.

This study had several limitations, firstly, the data scope used was mostly limited to institutions and countries with a Muslim-majority population, which might not fully represent the challenges and opportunities faced when integrating non-*ribawī* principles into global financial markets. Secondly, the study lacked an empirical analysis of the long-term impact of *muḍārabah* and *mushārah* integration, instead of focusing on theory and concepts. These limitations showed the need for more comprehensive and inclusive reviews. Additionally, an in-depth analysis of the role of Shariah supervisory bodies in ensuring compliance and innovation in Shariah-compliant financial instruments was necessary. This would help in identifying effective strategies to enhance the global adoption of non-*ribawī* principles and promote the development of Islamic financial principles as a sustainable alternative in the global economy.

Social and Economic Implications of Adapting the Concept of Riba in the Global Market

The adaptation of the concept of *riba* (usury) had both social and economic impacts on Muslim communities (Harahap & Risfandy, 2022). The results showed that the global market ideology, which was dominated by *ribawī* systems, had influenced Muslims' perceptions of Shariah-compliant financial practices. Despite efforts to adopt financial instruments that comply with Shariah principles, such as *muḍārabah* (profit-sharing partnerships) and *mushārah* (joint ventures), many Muslims still relied on *ribawī* systems based on the dominance of global markets and limited access to Shariah-compliant products. A historical sociology method showed that Muslims' understanding and responses to *ribawī* practices were heavily shaped by existing historical and sociological framing, with varying interpretations of Shariah regarding *riba* in the modern era often linked to transitions in global monetary and economic systems.

The social integration of *ribawī* systems into the global market affected the values of Muslim communities (Asutay & Yilmaz, 2021). Previous investigations reported that inadequate historical and sociological framing of *riba* principles caused errors in the understanding and acceptance of Shariah principles. Many Muslim communities struggled to balance the demands of the modern economy with adherence to Islamic law, leading to confusion and conflict in financial decision-making. This showed the need for enhanced education and advocacy on Islamic financial principles to raise awareness and understanding among Muslims (Wan Ismail et al., 2020).

The global market ideology, dominated by *ribawī* systems, had changed Muslims' perception of *riba*, making them feel compelled to participate in systems that contradicted Shariah principles. This study showed that despite efforts to use Shariah alternatives such as *muḍārabah* and *mushārah*, there were still significant challenges. As a result, historical and sociological frameworks played a crucial role in how Muslim communities comprehended and responded to *ribawī* practices in the modern era.

The social impacts of integrating *ribawī* systems into the global market included a decline in the awareness and understanding of Islamic financial principles and an increased reliance on *ribawī* practices (E. R. Ahmed et al., 2018). This showed the need for reforms in Islamic financial education and the development of products that were more accessible and comprehensible to Muslim communities. From an economic perspective, the study expressed the importance of enhancing collaboration between Islamic financial institutions and global entities to effectively integrate Shariah principles into the global financial systems.

More in-depth investigations on local characteristics influencing Muslims' perceptions of *riba* were suggested, focusing on regional differences in Shariah interpretation and practices. To acquire a more comprehensive understanding of the impact of *riba* adaptation, investigations should include a broader and more representative sample from various Muslim-majority countries. Further exploration was also needed to determine how external factors, such as changes in global policy and financial technology, affected the integration and acceptance of Shariah principles in contemporary financial systems.

Conclusion

In conclusion, this study indicated that the conformity of the global financial systems with Shariah principles, particularly the concept of *riba*, was still in its nascent stages and had not fully developed. The results showed that despite efforts to integrate Shariah principles into contemporary financial systems through Shariah-compliant

financial products and fatwa interpretations, the process required significant time and ongoing adaptation. To achieve full compliance with *muṣṭalahat al-fiqhiyah* (Islamic jurisprudential terminology or legal acculturation), the current fiat money and global financial systems experienced substantial challenges. This analysis provided in-depth insights into how fiat money and global financial systems interacted with Shariah principles, offering guidance for future investigations on the jurisprudence of riba in a modern context. A key strength of the study relied on its ability to identify and analyze the dynamics between contemporary financial systems and Shariah principles, presenting various potential adaptation pathways for scholars and practitioners. Furthermore, the analysis showed the importance of continued investigations to update the understanding and integration of riba laws within the global financial systems.

The study had several limitations, including its early nature and inability to predict how the global financial systems would adapt to idiomatic *muṣṭalahat al-fiqhiyah* (Islamic jurisprudential terminology) or achieve legal acculturation. Another limitation was the lack of empirical data and an in-depth case study on the integration of Shariah principles into fiat money and global financial transactions. Additionally, the study had not comprehensively considered how the transformation in financial systems, such as the potential return to the use of gold and silver, might impact the status of riba-related transactions.

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