

What Is Riba in Islam, and Why Is It Forbidden?

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What Is Riba?

Riba is an Arabic word that means “to increase” or “to exceed” and is commonly used in reference to unequal exchanges or charges and fees for borrowing. [Interest](#) is deemed riba, or an unjust, exploitative gain, and such practice is forbidden under Islamic law.

KEY TAKEAWAYS

- In Islamic finance, riba refers to interest charged on loans or deposits.
- Religious practice forbids riba, even at low interest rates, as both illegal and unethical or usurious.
- Islamic banking has provided several workarounds to accommodate financial transactions without charging explicit interest.

Understanding Riba

Riba is a concept in [Islamic banking](#) that refers to charged interest. It has also been referred to as [usury](#), or the charging of unreasonably high-interest rates. There is also another form of riba, according to most Islamic jurists, which refers to the simultaneous exchange of goods of unequal quantities or qualities. Here, however, we will be referring to the practice of charged interest.

Riba is prohibited under [Sharia](#) law for a couple of reasons. It is meant to ensure equity in exchange. It is meant to ensure that people can protect their wealth by making unjust and unequal exchanges illegal.

Islam aims to promote charity and helping others through kindness. To remove sentiments of selfishness and self-centeredness, which can create social antipathy, distrust, and resentment. By making riba illegal, Sharia law creates opportunities and contexts in which people are encouraged to act charitably—loaning money without interest.

Riba vs. Murabaha

[Murabaha](#), also referred to as [cost-plus](#) financing, is an Islamic financing structure in which the seller and buyer agree to the cost and markup of an asset. The markup takes place of interest.

As such, Murabaha is not an interest-bearing loan (*qardh ribawi*) but an acceptable form of credit sale under Islamic law. As with a [rent-to-own](#) arrangement, the purchaser does not become the true owner until the loan is fully paid.

Riba, or interest, is banned in Islamic finance, although it is possible for an entity to sell something at a profit markup.

Rationale for Riba

Riba is forbidden under Sharia law (Islamic religious law) because it is thought to be exploitative. Though Muslims agree that riba is prohibited, there is much debate over what constitutes riba, whether it is against

Sharia law, or only discouraged, and whether or not it should be punished by people or by Allah. Depending on the interpretation, riba may only refer to excessive interest; however, to others, the whole concept of interest is riba and thus unlawful.

For example, even though there is a wide spectrum of interpretation on the point at which interest becomes exploitative, some modern scholars believe that interest should be allowed up to the value of [inflation](#) to compensate lenders for the [time value of their money](#), without creating excessive profit. Nevertheless, riba was largely taken as law and formed the basis of the Islamic banking industry.

The Muslim world has struggled with riba for quite some time, religiously, morally, and legally, and eventually economic pressures did allow for a loosening of religious and legal regulation, at least for a period.

In his book, "Jihad: The Trail of Political Islam," Gilles Kepel wrote that "since modern economies function on the basis of interest rates and insurance as preconditions for productive investment, many Islamic jurists racked their brains to find ways of resorting to them without appearing to bend the rules laid down by the Koran," adding that "the problem loomed ever larger as more and more Muslim states entered the world economy in the 1960s." This loosening of economic policy lasted until the 1970s when a "total ban on lending with interest was reactivated."

In the years leading up to the 1970s, the ban on lending with interest was relaxed slightly, according to Gilles Kepel, one of Europe's leading experts on Islamism.

What Does Riba Mean?

There are lots of different interpretations of what Riba means exactly. It is an Arabic word that in English roughly translates to "exceeding" or "increasing" and is often linked to interest and usury, which is the charging of unreasonably high-interest rates.

Why Is Riba Forbidden?

In the Quran, receiving or paying interest is considered a major sin because it promotes inequality. Interest is said to increase the gap between the rich and poor in society and anyone who receives it is expected to donate that money to a charitable cause.⁷

What Are the Types of Riba?

Muslim scholars reference two forms of Riba:

- Riba in a loan contract (*Riba al-Nasiyah*)
- Riba in a sale or exchange contract (*Riba al-Fadl*)

The Bottom Line

Riba is a core component of Islamic finance, a guide to managing money that keeps within the moral principles of Islam. The Koran makes it fairly clear that interest is an exploitative practice and this doctrine is largely respected by about a quarter of the global population as well as other non-Muslim people against the concept of charging to borrow money.

Source: <https://www.investopedia.com/terms/r/riba.asp>