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ENGLISH FOR THE FINANCIAL SECTOR

Course for first year master students in Finance and Accounting

The academic year 2023/2024

INTRODUCTION

English for the financial sector is reading, speaking, and writing courses for undergraduate students in finance and accounting who need to understand and express the key concepts of finance and accounting and even other related areas of business and economics.

These courses aim to:

- * present you with the language and concepts found in books, newspapers, magazine articles, and websites on finance and accounting.
- * develop your comprehension of finance and accounting texts.
- * provide you with opportunities to express finance and accounting concepts by reformulating them in your own words while summarizing and discussing ideas.

UNIT 23 Islamic banking

A - Interest-free banking

Some financial institutions do not charge interest on loans or pay interest on savings, because it is against certain ethical or religious beliefs. For example, in Islamic countries and major financial centers there are Islamic banks that offer interest free banking.

Islamic banks don't pay interest to depositors or charge interest to borrowers. Instead they invest in companies and share the profit with their depositors. Investment financing and trade financing are done on a profit and loss sharing (PLS) basis. Consequently, the banks, their depositors, and their borrowers also share the risk of business. This form of financing is similar to that of venture capitalists or risk capitalists who buy the shares of new companies.

B- Types of accounts

Current accounts in Islamic banks give no return – pay no interest to depositors. They are safekeeping arrangements between the depositors and the bank, which allows the depositors to withdraw their money at any time and permit the bank to use this money. Islamic banks don't usually grant overdraft on current accounts. Savings accounts can pay a return to depositors, depending on the bank's profitability: that is, its ability to earn a profit. Therefore, the amount of return depends on how much profit the bank makes in a given period. However, these payments are not guaranteed. There is no fixed rate of return: the amount of money the investment pays, expressed as a percentage of the amount invested, is not fixed. Banks are careful to invest money from savings accounts in relatively risk-free, short-term projects. Investment accounts are fixed-term deposits which cannot be withdrawn before maturity. They receive a share of the bank's profits. In theory, the rate of return could be negative, if the bank makes a loss. In other words, the capital is not guaranteed.

C- Leasing and short-term loans

To finance the purchase of expensive consumer goods for personal consumption, Islamic banks can buy an item for a customer, and the customer repays the bank at a higher price later on. Or the bank can buy an item for a customer with a leasing or hire purchase arrangement. Another possibility is for the bank to lend money without interest but to cover its expenses with a service charge.

If a business suddenly needs very short short-term capital or working capital for unexpected purchases and expenses, it can be difficult to get it under the PLS system. On the other hand, PLS means that bank-customer relations are very close, and that banks have to be very careful in evaluating project, as they are buying shares in the company.

D- Short comparison

Conventional banks	Islamic banks
<ul style="list-style-type: none"> • Pay interest to depositors • Charge interest to borrowers • Lend money to finance personal consumption goods 	<ul style="list-style-type: none"> • Give no return on current accounts; share profits with holders of saving accounts and investment accounts. • Share borrowers' profits (or losses) • Buy items for personal customers with a leasing or hire-purchase arrangement

E- Exercise

Match the two parts of the sentences, look at the text to help you.

- 1- The basic feature of Islamic banking
- 2 - Instead of charging and paying interest
- 3 - Depositors in Islamic banks
- 4 - Businesses that deal with Islamic banks
- 5 - Islamic banks operate in a similar way

- a - do not receive a fixed return.
- b- have to share their profits with the bank.
- e - Islamic banks and their customers share profits and losses.
- d- is that it is interest-free.
- e- to venture capitalists who buy companies' stocks or shares.