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Facultad Experimental de Ciencias
Departamento de Ciencias Humanas
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Bitcoin The Virtual Currency Between Halal And Haram In Islamic Finance

**Dr. Huda Al-sahrawardee, Assistant Prof. Amel Mahmood Ali, Dr.
Wasan Yahya Ahmed**

**Mustansiriyah University - college of Economics& Administration
- Department of Finance and Banking. alsahrawardee_huda@uo-
mustansiriyah.edu.iq, amel_mang@uomustansiriyah.edu.iq, wasan_
savini@uomustansiriyah.edu.iq**

Abstract

The technological and creative developments in the financial and banking fields are accelerating very rapidly, especially in the field of digital and virtual currencies which achieves significant profits. These technologies sometimes are leads to the difficulty of accepting these developments especially in Islamic societies, because some of them do not conform to Islamic law. Which is requires the creation of a fatwa and the legitimacy of Shari'ah scholars and jurisprudence to be handled and traded. This paper highlight on the concept of Virtual Currency like Bitcoin and how does it work with the requirement of Islamic banking and finance also with Islamic law (Shari'ah) according to the opinion of Islamic scientists like (Malik & Ibn Taimiah). While it aims to find answers whether the virtual currency, especially Bitcoin is it permitted (Hala) or it's forbidden (Haram) under Islamic Law (Shari'ah). It concludes that Bitcoin might be more suitable to deal with it in the Islamic world, especially Islamic banking than Usury Banks (Riba banks) as Trade Banks because of Bitcoin is free of interest rate.

Keywords: Virtual Currency, Bitcoin, Islamic Banking and Finance

Bitcoin, La Moneda Virtual Entre Halal Y Haram En Las Finanzas Islámicas

Resumen

Los desarrollos tecnológicos y creativos en los campos financiero y bancario se están acelerando muy rápidamente, especialmente en el campo de las monedas digitales y virtuales que logran ganancias significativas. Estas tecnologías a veces conllevan la dificultad de aceptar estos desarrollos, especialmente en las sociedades islámicas, porque algunas de ellas no se ajustan a la ley islámica. Lo cual requiere la creación de una fatwa y la legitimidad de los eruditos y jurisprudencia Shari'ah para ser manejados y comercializados. Este artículo resalta el concepto de Moneda virtual como Bitcoin y cómo funciona con el requisito de la banca y las finanzas islámicas también con la ley islámica (Shari'ah) según la opinión de científicos islámicos como (Malik e Ibn Taimiah). Si bien tiene como objetivo encontrar respuestas si la moneda virtual, especialmente Bitcoin, está permitida (Hala) o está prohibida (Haram) según la Ley Islámica (Shari'ah). Concluye que Bitcoin podría ser más adecuado para tratarlo en el mundo islámico, especialmente la banca islámica que Usury Banks (Riba banks) como Trade Banks debido a que Bitcoin está libre de tasas de interés.

Palabras clave: moneda virtual, Bitcoin, banca islámica y finanzas

Introduction

With the emergence of Bitcoin and advocated some people deal with it in order to get rich quickly was to be stopped with dealing with this currency to reach a result and the ruling on the legitimacy of dealing with it. Humanity dealt with gold and silver exchange, Dinar and Dirham, paper currency and then in a digital currency that exist in banks nowadays. At present, the virtual currency has emerged, which include the Bitcoin. It is known in economics that there must be three conditions to be called a currency; the first condition is to be a mediator acceptable for exchange so that the seller accepts it for their goods. The second condition is to be a measure by which the value of the commodity can be determined. The third condition is to be a reservoir of wealth.

Virtual currencies are not physical currency in kinds, such as gold, cash or monitory fiat which it issued by the central bank, also are not controlled by banks, where the virtual currencies are based on the central break and the abolition of the role of banks as a mediator between the seller and the buy-

er. Virtual currencies are managed by their users according to the principle of peer-to-peer. Virtual currencies are characterized by privacy, ease of use, and the individuals who produce and trade them are a boon to humanity and the people of the land because they are producing their own currency. The most popular currencies are Bitcoin, which consists of a digital address associated with an electronic wallet. Each bit is divided into 100 million Satoshi, and when you buy the item with a one Bitcoin, we will turn the Bitcoin button into the seller's wallet and the Bitcoin will move to his wallet. The wallet is an electronic application when a person wants to convert a certain value from a Bit of coin to another person; he uses the so-called digital signature. This signature contains three things, the first is conversion letter when the Bitcoin is converted to another folder, the conversions go to the Bitcoin network and enter the confirmation process and are saved in the Chain blocks which are called Blockchain.

Bitcoin currency trading was launched for the first time in 2009 at a very low price it was 0, 0001 \$. This price of the Bitcoin rose in 2011 into 35\$, and at the beginning of 2017 the price reached 1000 \$ and then escalated very quickly until reached 4000 \$ for per Bitcoin in 14 / 7 /2017.

Some of the reasons for this rise are speculations in this currency. Some countries have started to adopt it in the official circulation, increasing new services sectors by adopting them as airlines, in addition to electronic shops and money changers that exchanger currency such as dollars to Bitcoin and can buy some of them from websites.

The most governments in the world have not yet adopted the Bitcoin currencies as a currency of exchange, but very few countries such as Germany and Japan have routinely allowed Bitcoin to be traded and approved as a method of payment. These countries have interests in allowing the currency to trade and speculate, in the regulation of trading and control the movement of this currency.

Bitcoin has become a staple in restaurant, hotels, and e-shops around the world. This currency has risks and disadvantages, including the following: the price of Bitcoin is subject to fluctuation due to reasons such as electronic attacks, serious viruses, and the closer of large stores that sell in Bitcoin. Also, because Bitcoin is programming with mathematical algorithms, which affects the programming with the effects we mentioned, which cannot be handled by individuals who complain to any party because there is no specific entity responsible for complaints and claims in this currency. This currency is managed by a network of users and programmers around the world who have created a community for them and are working in this

currency. Although the Bitcoin is an open network that any programmers can propose or develop or modify on the program that the traders work for and the products they have, and this needs to be effort and professional. Dealing with this currency carries many kinds of risks, including that:

- 1- it is still not recognized by countries, public and central banks,
- 2- Easy to use in suspicious transactions, criminal financing, and money laundering.
- 3- Of the dangers also “alghurur”, ignorance in the value.
- 4- Their prices are very volatile in the event of an effective risk in the case of the rise of missiles are vulnerable to rapid deterioration.

Methodology

- 1- Aim of research

The paper will highlight on the concept of virtual currencies, in order to explain the type of this currency, features of virtual currency especially Bitcoin, and it's relevance to Islamic law (Shari'ah) for the purpose of operating in Islamic finance and banking transactions and avoiding usury (riba).

- 2- Importance of research

The importance of the subject shown by trying to understand the position of Islamic shari'a from the virtual currency, this will make Islamic countries to adopt this currency because it shows importance from being a highly confidential currency. Money is far away of usury in some extent, also the state doesn't reach the money because there is no specific one responsible for it, and therefore it is free of tax and free of interest. Technically, the source of some suspicious transactions on the Bitcoin network is still possible.

- 3- Problem of research

This study will answer the question of whether the Bitcoin is permitted (Hala) or forbidden (Haram)? What is the acceptance and spread of dealing with Bitcoin around the world? The study will be descriptive analysis.

Cryptocurrencies or Virtual currency

“A virtual currency is a digital representation of value that can be digitally traded and functions as a medium of exchange, a unit of account and/or a store of value, but does not have legal tender status in any jurisdiction. It is not issued or guaranteed by any government and fulfills these functions only by agreement within the community of users of the virtual currency. It is distinct from fiat currency or “real currency”, which is the physical money that makes up a country's legal tender, and distinct from e-money, which is a digital representation of fiat currency.”(Allen & Overy, 2015, P:3)

Virtual currency describes as a fake currency; it consists of numeric's code that has the ability to save on CD or internet website. Subject Virtual currency to states of supply and demand. It is difficult to track sales and purchases that are made, in addition to the difficulty of knowing who the owners of these currencies are. Electronic currencies differ from regular payments methods such as "PayPal" and credit cards in the absence of broker to convert transactions as in banking institutions. Virtual currency is not subject to a higher authority that monitors finance transactions represented by central banks. They rely on peer-to-peer interaction networks, indicating that there are no third party monitoring financial transactions. (Britimira, 2014,P:2) With the emergence of Bitcoin and advocated some people deal with it in order to get rich quickly was to be stopped with dealing with this currency to reach results and the ruling on the legitimacy of dealing with it. Humanity dealt with gold and silver exchange, dinar and dirham, paper currency and then in the digital currency that exist in banks nowadays. At present, the virtual currency has emerged, which include the Bitcoin. It is known in economics that there must be three conditions to be called a currency; the first condition is to be a mediator acceptable for exchange so that the seller accepts it for their goods. The second condition is to be a measure by which the value of the commodity can be determined. The third condition is to be a reservoir of wealth.

Virtual currencies are not physical currency in kinds, such as gold, cash or monetary fiat which it issued by the central bank, also are not controlled by banks, where the virtual currencies are based on the central break and the abolition of the role of banks as a mediator between the seller and the buyer. Virtual currencies are managed by their users according to the principle of peer-to-peer. Virtual currencies are characterized by privacy, ease of use, and the individuals who produce and trade them are a boon to humanity and the people of the land because they are producing their own currency. The most popular currencies are Bitcoin, which consists of a digital address associated with an electronic wallet. Each bit is divided into 100 million Satoshi, and when you buy the item with a one Bitcoin, we will turn the Bitcoin button into the seller's wallet and the Bitcoin will move to his wallet. The wallet is an electronic application when a person wants to convert a certain value from a Bit of coin to another person; he uses the so-called digital signature. This signature contains three things, the first is conversion letter when the Bitcoin is converted to another folder, and the conversions go to the Bitcoin network and enter the confirmation process and are saved in the Chain block which is called Blockchain.

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Bitcoin as an innovation currency has the ability to solve important problems as the following:

- 1- "Bitcoin allows online transactions without worrying that personal data for instance Credit cards or Bank account details will be compromised."
- 2- Each person has a cell phone or using internet connection "can execute a seamless transaction, even in amounts less than a penny this is important for developing the world that have lack bank access."
- 3- Free of inflation risk because Bitcoin "provide an alternative way to transact for countries", also it creates limited total coins.
- 4- Transaction fees are minimal for traders, compared with fees of credit cards, "which is good for retailers with limited margins." (Harvey, 2015, March 1)

Characteristics of Bitcoin

Bitcoin has several characteristics that have led to increased interest in it by many individuals; the most important characteristics are as the following (Al-Nua'ami, 2018, P. 18-19) (Mohammed, 2017, P. 3-4):

- 1- Hidden user Identity: dealing with the virtual currency does not require verification of the person used to complete the transaction and does not require disclosing any personal data or information when executing the selling and buying transactions.
- 2- Extensive trading: Bitcoin has the ability to deal with any individual around the world, allowing the transfer of money from and to everywhere in the world and in any amount.
- 3- Super fast money transfer: the element of speed is the characters of Bitcoin in transferring the money around the world within a period of time not exceeding specific seconds.
- 4- Control and protection of fund and identity: the users of Bitcoin have full control of their transactions, so traders cannot impose charges are undesirable. Payments are also made without the integration of personal information and transaction providing great protection against identity theft, thus protecting their funds from the risks of encryption and backup.
- 5- Lower cost of use, payment, and transfer of funds, because the transfers are conducted directly between users without the need for a broker.

- 6- Ease of use.
- 7- The difficulty of tracking transactions and the parties that deals with them.
- 8- Wide geographic spread.
- 9- Not linked to bank accounts.
- 10- It is stored on electronic means.

Bitcoin as a currency in Islamic Shari'ah

Currency in Islamic shari'a usually must be tangible, that means can account it as money (Mal), it must be changeable, and also it must be legal. Scholars of shari'ah have three opinions: the first opinion, Bitcoin is not (Mal) and the investment has not complained of Islamic shari'ah because it is purely speculative. Second opinion Bitcoin is not real money but it is digital assets. The third opinion says the Bitcoin is currency. Bitcoin in Islamic shari'a in order to be (mal) it must have two things A. desirability B. storability. (Adam, non, P: 42)

In order for the money to function, the following conditions must be met in order to be public acceptance, rather than the special, to meet the debts and financial obligations. The most important of these conditions are as following: (Ali & Al-issa, 2004, P: 29-31)

- That the money received general acceptance
- Homogeneity of the unit of money and its symmetry
- Relative stability in value
- Indivisibility
- Easy to carry and lightweight
- Their inability to damage quickly

Bitcoin as other currency has several features or characters, it is not tangible, it doesn't have a value in contrast to assess, responsibly doesn't related to anyone to issue it, it cannot save.

Requirements of Islamic Finance

In order to finance any project, you should know the requirement of Islamic finance. There are several requirements that each person who deals with Islamic bank or Islamic finance institution should put into consideration this requirement as the following: (Bergestr, 2015, P: 2-3)

- 1- Prohibition of interest rate. Interest must be forbidden on debt and should not be asked to pay, to receive or promise to pay.
- 2- Giving the wrong idea or impression (misleading). "Agents should not mislead their trade partners. Trade partners are entitled to know what they buy. Further trade partners must be able to take their own decisions in freedom".

3- Real entity. Offering goods and services should be through real or true entity, not a virtual entity.

4- Islamic law (Shari'ah) are forbidden and prohibition Gambling.

5- Compulsory to give a sum of money to a charity or needy people as a donation.

What is the Islamic ruling in this currency?

The subject of the virtual currency is one of the major topics in Islamic law that requires the opinion of jurists. There are some indicators that can help or contribute to trying to find a jurisprudential judgment. The judgment of the currency in Islamic shari'ah depends on a number of things, whether the decision bitcoin is a commodity or currency and cash paper currencies, what is the nature of the currency because it is a program, resemble is it a gold, silver, commodity, or banknotes, and it doesn't resemble financial instruments, but algorithmically software.

The text of Imam (Malik) that that entire people wanted and made it a real deal as a coin (Muskoka) it will take the rule of gold and silver, even if it was from leathers. (Ibn Taymiyyah) indicates that the money does not have the limit but it is returned to deal with people. According to above the answer of whether Bitcoin is Halal or Haram depend on the people in transitions with it, if they use it to gambling it will be forbidden (Haram). But if the Bitcoin has all the conditions and requirements of currency in Islam and Shari'ah then will be permitted (Halal). Saudi Arabia and the United Arab Emirates, they cooperate together in order to adopt this Bitcoin currency in financial markets and this is the role will give an impression that these currencies are permitted (Halal).

Conclusions

There are some rules that consider Bitcoin (Halal) while others consider it (Haram). However, so far it has been proved that there are some aspects and features of Bitcoin that are considered (Halal) According to all the information above the study conclude that:

1- Trading in Bitcoin is free of interest rate (without Riba) which considered as Islamic finance (Hala), but it's not physical material as Money (Mal) can touch, therefore it's not acceptable.

2- Islamic shari'ah doesn't accept Bitcoin as a currency used in transactions, financial transfer, trade or business because Bitcoin is fake currency not real therefore it is (Haram).

3- Most of the countries except Germany and Japan all of them refuse using Bitcoin as a currency because it's not responsible from any formal institute in the world, maybe in the future will be under central banks re-

sponsibility and will be permitted (Halal) to use in Islamic banks.

4- It is open the door for money laundering or terrorist to transfer and exchange money without knowing whom the owner of it.

5- Its containment of the (Ghurar) the desire of the trader to make a quick profit, which gives the impression or gain the status of gambling, and that impression is forbidden (Haram) in Islamic shari'ah.

6- Also, it's Not permitted (Halal) because of no collateral or Guarantee, its unknown currency, and it has high vitality and risks.

7- It doesn't have possessed the elements of money (Mal).

Recommendations

The study recommended being careful and avoid using Bitcoin in selling, purchasing and trading Bitcoin currency until finding some legal and formal rules.

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