

Rastin Banking

New Operational Islamic Banking System

(A bird's eye view)

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Introduction

Many economists around the world have done their best to eliminate *Riba* from banking activities, but have not achieved much. In this direction, Rastin Banking, in compliance with *Sharia* commands, has been compiled not only to eliminate *Riba*, but also to institutionalize various teachings of justice and Islamic ethics in banking activities. Good points of Rastin Banking in all fields of banking, financial, economic, ethical, social and international activities are so expanded that it can be regarded as a base to improve banking structure.

To increase the compliance of banking system with principles and regulations of Islamic religion, and better access to safe financial activity and helping the economy to bloom, fair distribution of possibilities and opportunities, job creation and increasing the welfare of the society, the Rastin Banking System was designed and all banks can carry out their activities on this basis.

Rastin Banking System is based on special operational, financial, economic, ethical, social, legal, international and organizational principles that based upon the latest scientific achievements of humankind in the field of science and technology with the aim of growth and development of the economy and banking of the society.

In order to facilitate legal activities of Rastin Banking, some improvements have been carried out on auxiliary Islamic contracts. To fulfill the necessary legislative needs of bank sharing activities, joint investment funds and facilitating social insurance activities some new legal institutions are also defined as "Fund with variable capital". To distinguish profit from *Riba* certain measures were also defined.

In order to prevent squandering (*Israf*) and to reform banking sources consumptions, which have worse economic and social consequences than *Riba*, and to increase efficiency, bank is obliged to follow specific regulations concerning its activities and finance only those projects, which have observed certain considerations and criteria in their project proposal.

Bank can finance projects of restoring uncultivated lands by supporting qualified applicants for the promotion of employment and development of agriculture, industry, mining, housing and tourism in the development of different regions of the country.

Bank and parties involved in Rastin Banking contracts should observe the supervisory compiled regulations concerning financial transparency, information disclosure and corporate governance. All contracts with bank are considered as official documents and enforceable. These contracts will be carried out by unit of execution of enforceable documents in bank.

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Rastin PLS Banking

In Rastin PLS banking as the main subsection of Rastin Banking, on behalf of the depositor, bank finances entrepreneur for investment according to compiled regulations and at the end project, the entrepreneur will distribute the profit/loss of the project in proportion to capital and duration of using that capital with the depositor.

Rastin PLS Base System

Rastin PLS Base system refers to the main process and general regulations of Rastin Profit and Loss Sharing (PLS) Banking system. On request and on behalf of the depositor, bank invests his fund in one of Rastin PLS products and instead, gives Rastin Certificate of the selected project to him and allocates his fund to selected project of the entrepreneur; and supervises the implementation and execution of the project. In the end, after deducting its own commission, bank divides the profit/loss (if any) among engaged sides (depositors and entrepreneur). The bank is the agent of the depositor, and is responsible for observing his rights (depositor). He must use all his expertise to reach this end.

Fixed profit rate is eliminated in Rastin PLS banking and the return rate is calculated according to the real return of capital in the real economy. Most of the regulations of Rastin PLS Base system are extended to its financial subsystems. This system has its own organization, structure and working process.

Rastin PLS Financial Subsystems

Rastin PLS financial subsystems refer to specific financing methods or services in Rastin PLS Banking. These subsystems work under general regulations of Rastin PLS Base system:

1. Joalah Financial Sharing (JFS): is a method in which, bank finances entrepreneur (producer) from depositor's resources or the provided sources by the buyer.
2. Mudarah Financial Sharing (MFS): is a kind of *mudarah* under Rastin PLS banking in which bank introduces the entrepreneur project proposal in the field of trade or transaction of commodities (commerce) to depositors.
3. Installment Financial Sharing (IFS): in IFS, the installer (depositor) will finance a portion of the needed fund of the entrepreneur through the bank for a certain period of time (amortization period). The entrepreneur will pay back his share by installments and will own the total property of the project and IFS ends.
4. Rent Financial Sharing (RFS): entrepreneur temporarily donates the ownership of a part of his productive asset (assets of an operating firm), rental asset (those assets, which can be let) or dead asset (non-operating or suspended firms or uncultivated lands assets) to depositor who finances him but keeps it as mortgage. Then pays back the fund received from the yields of the asset proportional to depositor's share to depositor at the end of the contract, or periodically. The original deposit of depositor will be given back to him after the end of the project. The profit of the project will be given to depositor periodically or in a lump.
5. Bail Financial Sharing (BFS): is the application of deposit of depositor by the entrepreneur to produce a defined commodity and delivering the commodity or paying back its value in future specific time.
6. Rastin Group Funding (RGF): is collecting of deposits of specific depositors for a specific beneficial project under the regulations of Rastin Banking.
7. Rastin Personal Security (RPS): to create competitive conditions and to increase the efficiency of social security insurance and diminishing antitrust of social security systems and pension funds, private and public pension funds are established according to Rastin Banking regulations. People and firms can allocate a portion of their obligatory (or optional) insurance premium

payments (for himself or his employees) for social security to the funds that operate under Rastin Personal Security (RPS) and enjoy its benefits. Therefore, they will be exempted from obligatory insurance premium payments equal to the payment they have paid to these funds.

8. Rastin Social Takaful (RST): benevolent people can deposit their funds at banks for charity purposes, and bank will be allowed to pay profit (or the principal as well) of deposit to needy people, in the form of a loan or non-returnable payments (according to the depositor request).
9. Sponsor Crowd Funding (SCF): is the process of collecting non-returnable funds for a specific protective goal of entrepreneur through the bank via social networks.
10. Peer to Peer Loan (PPL): is the process of collecting funds for loan-financing the entrepreneur through the bank and via social networks.
11. Rastin Swap Bond (RSB): is based upon *Mubadalah* (swap) contract between *Mobadil* (swapper) and *Motebadil* (swapee) in which the durations and substances of swaps are equal for first and second swaps. *Motebadil* (swapee) issues the bond and owes to *Mobadil* equal to the nominal value of bond; and should pay this amount (*badal*) to *Mobadil* (swapper) at maturity. The issuer (*Motebadil*) is obliged to give the *mobaadal* for the same amount and period as *badal* to *mobadil*. He can choose a combination of amount and period that the multiplication of amount by the period of *mobaddal* be equal to that of *badal*. At second maturity, *mobadil* is committed to returning *mobaddal* to *motebadil*.
No interest rate is involved in these bonds and they are of four kinds: Central Bank Rastin Swap Bond, Treasury Rastin Swap Bond, Bank Rastin Swap Bond, and Commercial Rastin Swap Bond. They can be in domestic money or foreign exchange.
12. Rastin Swap Deposit (RSD): is a new banking deposit account, which is interest-free and is based on Swap Contract in Rastin Banking. In this depositing by opening the deposit, the depositor is entitled to use interest-free loan to the amount and duration that his resources have been being deposited and then return the money back to the bank.
13. Rastin Swap Card (RSC): is a bankcard, and has no interest rate and is issued based on the Swap Contract in Rastin Banking. In Rastin Swap Card there are two periods. In the first period, card issuer lends money to card holder; and in the second period borrows money from cardholder instead. At the first stage card-issuer credits a certain amount of money for specific time duration to the card of cardholder and requests the cardholder to deposit the same amount for the same period at the end of the cited time duration (first maturity) in the issuer's deposit account.

Rastin Certificates

Rastin Certificates are a collection of designed certificates in Rastin PLS Banking Base system and its financial subsystems. These certificates can be anonymous or named papers, which are transferable and negotiable online through the website of the bank and are issued with a nominal price and for a certain period. The owners of these certificates share the results of the project proportional to nominal price and participation period of the certificate.

Various Rastin Certificates and their characteristics according to the kind of participation in the PLS Base system or its financial subsystems regarding the type of project and the asset used as:

- PLS Base: *Musharakah* (Participation) and *Pazireh* (Subscribed) Certificates.
- JFS: Future Certificate.
- MFS: *Mudarabah* and Periodic *Mudarabah* Certificates.
- IFS: Ordinary *Mughasatah* (installment), Rental *Mughasatah* and *Musharakah Mughasatah* Certificates.
- RFS: Mortgage Sharing, Periodic Mortgage Sharing, Mortgage *Mudarabah* (commerce), Periodic Mortgage *Mudarabah*, Mortgage *Muzaraah* (cultivating), Periodic *Muzaraah*, Mortgage *Mugharasah* (planting), Periodic Mortgage *Mugharasah*, Mortgage *Musaghah* (irrigation), Periodic Mortgage *Musaghah*, Mortgage *Istisna* (industrial/manufacturing), Periodic Mortgage *Istisna* and Rental Certificates.

- BFS: Bail Certificate.
- RPS: Social Security, Personal Security and Pension Security Certificates.
- RST: Takaful and Loan Certificates.

Complementary Systems

Complementary systems of Rastin Banking refer to innovations, platforms and supplementary Rastin Banking methods and include the following systems:

- 1- Rastin Certificate Market (RCM): is a web-based settlement system for transaction of interest-free Rastin Certificates and Rastin Swap Bond in Rastin PLS bank.
- 2- Crowd Funding System (CFS): this system is a web-based system, which collects funds for Sponsor Crowd Funding (SCF) and Peer to Peer Loan (PPL) projects via social networks.
- 3- Operation Control and Monitoring System (OCM): is a computerized web-based system that provides the possibility of online inspection and control of bank personnel activities.
- 4- Mortgage Securitization System (MSS): this system facilitates people to change their assets into Guarantee Certificates through the bank.
- 5- Collateral Registration System (CRS): is an online web-based integrated system for registering movable and immovable assets.
- 6- Serial Commitments Clearance (SCC): provides the necessary arrangements for settlement of obligations of people who are in debt to someone from one hand, while they are creditors to someone else in a chain of debits and credits in a set of people.
- 7- Interbank Withdrawal Protocol (IWP): is an interbank agreement that allows the bank to withdraw its claims online from other debtor's accounts or at different banks when the debtor's account at the agent bank is empty.
- 8- Non-usury Scripless Security Settlement System (NSSSS): this is an online integrated web-based settlement system at the central bank for the transaction of Rastin Certificates and Rastin Swap Bonds coordination and supervision.
- 9- Money Laundering Detection System (MLD): provides necessary structural and electronic basis to compare tax information and bank information to discover money laundering.

Conclusions

To design an operational Islamic banking, we tried to mix theoretical and experimental knowledge to develop Rastin Banking. Rastin Banking is a complete new solution to banking based on Islamic and ethical teachings with the scientific and technological approach.

Some parts and modules of Rastin Banking have been implemented in Bank Melli Iran. The installed parts of the system are now functioning and have attracted depositors and investors, and since the procedures and instructions are well defined, the bank's staff is performing its procedures easily. The results of the test system are very satisfactory.

Rastin Banking is a national wide project with lots of subtle technical points. This system is an open-source banking model and all banks around the globe can easily install and use it. We wish Rastin Banking could put important steps to remove *Riba* and establish Islamic banking throughout the globe.

Resources of Rastin Banking

The Persian and English documents of Rastin Banking including detailed explanation of this banking method are accessible through <http://www.bidabad.com> in full texts in Persian and English languages. “Draft of Rastin Banking Bill” and its “Operational Bylaw of Rastin Banking” can also be accessed through the cited link.