

Q: Does interest accruing on the Provident Fund or Saving Bank Account come under Riba?

A: The interest accruing on the saving bank account can be considered as Riba if the income earned by the proceeds of this account do not qualify in terms of profit-loss sharing conditions. For instance, if the return from the saving bank account is linked to the return of any single government undertaking. The reason is that the proceeds of the saving account become a part of the general government budget. However, if the return from the saving bank account are specifically earmarked, are used in a specific undertaking and the account-holders share in the profit/loss of such undertaking, then the resulting income become Islamically legitimate.

In the light of Islamic injunctions, the interest earned on the provident fund does not fall within the definition of Riba. The reason is that the employee does not own the amount of the fund, during the period in which the interest has been earned. Therefore, the excess amount earned over the actual amount deposited can not be considered Riba. Here, the Fuqaha make two suggestions: One is that the government departments have added the excess amount without the written approval of the employee. In this case, accumulating excess amount are Riba free. In the second case, the employee himself can ask the government to treat his fund as interest-based, then the excess amount resembles Riba.

Contemporary fatawaa