Bitcoin in Islamic Model

Mohammed Abdulrahman Alkamali, Hamad Mohamed Hassanmohamedalyassi, Ali Mohamed alfzari, Uhannadsulaiman Alyahyaee, Abdallah Ishaqgholoom, Arieffsalleh bin Rosman

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Abstract

This research deals with the topic of virtual currencies and the possibility of investing in them from an Islamic point of view, as it is one of the most important outputs of technological development in the last decade, with a unique specification that some will accept as a method of payment.
The research problem lies in the fact that virtual currencies are the subject of great controversy and disagreement between a category in which there are many suspicions as it is fake and has no physical existence and a category in which you see the salvation from the control of the US dollar over the world, and since these virtual currencies are still modern, there is no unified legal ruling that determines dealing with them, the provisions of financial transactions do not apply to them, and banks and financial bodies do not control their exchange rate, as well as the existence of a number of obstacles that prevent them from being used in Islamic financial transactions, in addition to the scarcity of research on this topic.
On this basis, we tried in this research to achieve a set of goals, starting with identifying the history of virtual currencies, their origins, their generation techniques, studying how to invest in Islamic way, knowing the legal controls for Islamic investment, and finally arriving to present the Islamic model for the issue of investing in virtual currencies, relying on the deductive approach to reach the desired results using mental and logical thinking.

Introduction

The expansion of technical development in various areas of life led to the development of several fields especially the economic field. It was initially in the form of approved credit cards, and then virtual electronic currencies appeared (Khazan, 2018).
These currencies came as a modern phenomenon that aroused widespread concern and controversy in the economic community worldwide. Opinions varied about these currencies. Some viewed them as representing a new future for money, in return, others saw them as a global economic bomb (Ahmed, Abdullah and Sharif, 2018).
Anyway, the interest in this type of currency did not become evident until the introduction of Bitcoin, which has attracted lots of people's interest, especially merchants and capitalists, in addition to economists and electronic security academics as an electronic currency (Baron et al., 2015).
With regard to dealing with virtual currencies, Islam has permitted dealing with these currencies and legally using them to be equivalent to paper currency (Ahmed, Abdullah and Sharif, 2018).
Since the goal of Islam is to organize the lives of people in various fields of life and as the economic life is considered one of the most important areas of life. Islam sought to organize it because it came with an integrated economic doctrine specifying the foundations and pillars upon which these transactions are based on.
On the other hand, Islam forbids every harmful act that harms the Muslim, his society, and spread corruption. That is why the teachings of Islam forbid monopoly, but in return it legislates the process of investing money and investing it in the available resources in an absolute legal manner because it is a moral act and a human behavior that aims to elevate the human being and achieve stability and the well-being of individuals. Making this investment governed by the specific foundations, standards and controls for these investment operations (Ahmed, Abdullah and Sharif, 2018).

2- Research problem

The research problem can be summarized in the following points:
1) Digital currencies such as Bitcoin and others are modern currencies and there is no specific legal position or ruling to deal with them.
2) These currencies are not like the tradable Currencies, as there are no banks that control the exchange rate or financial institutions that issue these funds, but rather they are generated by the programmers themselves, and therefore the provisions of financial transactions that are applied to the tradable currencies do not work for digital currencies.

3) There are a number of obstacles that prevent the use of these digital currencies in Islamic financial investments.
4) The lack of studies and research articles related to this new and important field.

3- The importance of the research

The importance of the research is reflected in the importance of the topic it deals with by focusing on how to take advantage of virtual currencies and financial investment through Islam and Islamic law, and that is through the following points:
1) Proving the ability of Islam to contribute to the development of society by positively influencing investment. this process is considered the basis of the economic development process, because the investment process as seen by Islam is one of the most important factors contributing to achieving comprehensive economic development.
2) Clarifying the investment frameworks in virtual currencies from the perspective of Islamic legislation away from prohibited transactions, in order to employ resources in an optimal manner. This manner must achieve and clarify the efficiency of the economic system.
3) The practical importance is represented by introducing the benefit from the Islamic investment model in virtual currencies, and whether it is possible to gain money and other earnings from it and contribute to the economic development of society.

4- Research objectives and aims

Through this research, we seek to achieve a set of goals and to reach the main goal, which revolves around how to gain money from investing in virtual currencies in general and Bitcoin in particular in a legitimate way. The sub-objectives of the study are represented in the following points:
1) Analyzing the history of the emergence of virtual currencies and the mechanism of their generation
2) Analysis of investment mechanisms in Islam
3) Analysis of Shariah controls for Islamic investment
4) Introducing how to avail from the Islamic model of investing in digital currencies.

5- literature review

For further understanding of digital currencies, it is necessary to seek on some previous studies as follow:
Khan (2007) presented in his research "Investment Policies and Technology" the use of modern technology in developing investment policies in three main sections: The first topic: which was devoted to explaining the state of investment and technology policies by drawing the political theory and the experience of successful developing countries. While the more successful developing countries have used ambitious industrial and technical policies. While the less successful countries have fewer implementation capacities, but they can overcome the obstacles and constraints identified in the various investment sectors.
The second topic includes the practical stages to clarify the investment development approach in the various developing countries. For the third topic, a comparison was made between the investment policy approach and technology, and the investment environment.
Al Zaabi (2018) published an article entitled “The Legal Regulation of the New Digital Currencies in Emirati and Comparative Legislation: A Comparative Analytical Study.” Al-Zaabi presented the legal regulation of virtual currencies by studying their origin and circulation, the international and local view on trading in virtual currencies, and the legal nature of virtual currencies. In addition, the researcher dealt with the legal aspects and risks regarding virtual digital currencies represented in the international view and the view of the United Arab Emirates regarding dealing with virtual digital currencies.
Most of the previous studies were about clarifying the idea of digital currencies or an explanation of their mechanism of action, in addition to clarifying most of the restrictions that stand in the way of their work. Based on these researches, we conclude the urgent need for research inferring how to use digital currency in investment, especially Islamic investment. Most previous studies were limited to the idea of why digital currency developed and how it worked. These studies did not explain how digital currencies entered the Islamic investment world.

6- Research Methodology

Within this study, we relied on the qualitative approach, which is defined as one of the research types which is used in order to obtain an in-depth understanding and a comprehensive description of the social phenomenon (Simsar, 2019). Orabi (2007) defines the qualitative approach as a process based on the study of man and social reality in its various dimensions. This approach includes a qualitative imagination that explores reality, reads the future, and studies the human being with its various cognitive tools, such as participant observation, free and in-depth interview, expert interview, and social conversation.
The qualitative approach is also a flexible approach in research and the selection of appropriate tools in understanding, interpretation, and interpretation, as it seeks to achieve a deeper understanding of the studied phenomena and access to all incentives, representations, and trends that cannot be detected based only on the language of numbers. It is more influential in the conceptual and theoretical apparatus of the social sciences (Al-Haras, 2002).

We have Chosen the qualitative approach due to the fact that the studied phenomenon cannot be expressed in the language of numbers, but rather requires a correct understanding of previous studies and documents in order to reach the results of the study.

7- Section One: Virtual currencies, their origin, and the techniques generation

7-1- First axis: the history and origin of virtual currencies

In the mid-2000s, e-gold had millions of active accounts and billions of dollars in transactions annually but unfortunately, relatively lax security protocols for e-gold made it a popular target for hackers and scammers, leaving its users vulnerable to financial loss.

However, the emergence of Bitcoin, the first commonly used medium of exchange to combine decentralized control, user anonymity, record keeping, and built-in scarcity was first identified in a 2008 white paper published by Satoshi Nakamoto, a pseudonymous person or group.

In late 2012, WordPress became the first major merchant to accept bitcoin payments, and several merchants, investors, and online companies followed until dozens of merchants now consider the world's most popular cryptocurrency as a legitimate payment method. (Matsukis, Louise (2018))

7-2- Second axis: digital currency mining and the techniques of dealing and transactions.

The owner of each cryptocurrency has a private key that authenticates their identity and allows them to exchange units. Users can generate their keys, which are formatted as integers between 1 and 78 digits, or use a random number generator to generate one. Once they have a key, they can get the encrypted coin and then use it. The owner cannot spend or transfer his cryptocurrency without the key, which renders his property worthless unless the key is retrieved. This is an important security feature that reduces theft and unauthorized use. On the other hand, losing the private key means losing everything.

You can generate another private key and start accumulating the cryptocurrency again. But you cannot recover the holdings protected by your old lost key. Hence, Intelligent cryptocurrency users are crazy about protecting their private keys, usually storing them in multiple digital locations even though they are offline, for security purposes.

7-3- Third axis: the risks involved in dealing with digital currency.

The use of this currency may result in a number of potential risks, including:

* Lack of regulation and auditing, which facilitates black market activity.
* The ability to evade tax from some jurisdictions.
* The possibility of financial loss due to data loss is highly likely.
* Controlling its trading prices and its continuous changes:

Because digital currencies are limited in number, the people in charge control the supply of these currencies. This makes it vulnerable to massive value fluctuations and direct manipulation.

* Digital currency cannot be exchanged for paper currency smoothly and comfortably
* The negative effects of cryptocurrency mining:

Bitcoin mining consumes more electricity than Denmark.

8- Section Two: Investment in Islam and its judgments.

8-1- The first axis: the concept of investment in Islam and its history.

* Investment is the use of money to obtain legal profits in legitimate ways that are beneficial to the individual and society. We cannot forget that the simplified meaning of the concept of investment by jurists is different from the meaning of investment by non-Muslim economists, who focus on increasing profits and money in general without looking at the way in which this investment is made.

Accordingly, it can be said that the definition of investment idiomatically is: Increasing the material value of the invested money in accordance with the criteria of Islamic Sharia in order to meet the needs of society. (Mustafa Hussein (2001))

8-2- Second axis: investment techniques in Islam.

Investing by speculation.
Investing by sharing.
Investing through Cost-Plus Financing.

8-3- Third Axis: Shariah regulations for Islamic Investment.

A number of regulations have been set, namely:

* Emotional controls (ideological - religious).
* Value and ethical regulations: the most ethical traits or regulations that govern Islamic investment are: Amin Owaisi (2017)

- the Truthfulness and honesty. Mustafa (2001)
- Fulfillment and commitment to the concluded agreements.
- The investment should not cause harm to others.

* Social and economic regulations:

- Stay away from investing Islamic money through usury. Amari (2014)
- Not investing money through monopoly.

- Not investing money in prohibited or harmful goods.

9- Section Three: The Islamic Model of Investing in Digital Currencies.

9-1- First axis: investing in virtual currencies, reality and development.

The electronic currencies that enter banks and that there is no ambiguity in them have been supported by the Islamic religion, if they are negotiated in accordance with the rules of Shariah dealing. While electronic currencies, which are dominated by the feature of ambiguity and have nothing to do with banks, were rejected by the Islamic religion because of their exploitation and use in illegal matters, including money laundering.

There is no intermediary guarantor regulating exchange operations when dealing with Bitcoin electronic currency, and it is not considered legal money. For this reason, it is an unacceptable currency in the Islamic religion due to the lack of clarity of the issuer of it, as well as the party that guarantees its issuance. It was described by JPMorgan CEO Jimmy Dimon. As " a trick ". In order to make Bitcoin an acceptable currency from the view of the Islamic religion, the factors that make the buyer and seller comfortable and guarantee the seller's money must be available.

9-2- Second Axis: Currencies and Money in Islam.

After the spread of Islam, there was a need for a currency to be circulated by Muslims so that it was the basic financial identifier for Islamic civilization. However, this money soon flourished in most of the neighboring civilizations in an Islamic financial style. The circulation of Islamic currency flourished in the era of the Rashidun Caliphs. They established a financial system for the Islamic nation and printed a currency that distinguished Islamic civilization from other civilizations.

However, barter dealing did not stop, especially with regard to the raw materials that the Arabs were famous for, such as leather, wool, and other animal products. At that time, people realized that dealing with different currencies is only a method to facilitate trading dealings. Munir Maher Ahmed (2018)

9-3- Third axis: the Islamic model for investing in digital currencies.

the electronic currency could be deal with and invest in Islam when there are commitments that allow the use of electronic currency in the optimal investment. To achieve this, a set of positive conditions must be met in these currencies, including:

* The presence of popularity and preciousness in these electronic currencies:

In the financial world, there are three main sources of preciousness, which can be expressed as:

1 - general custom

2 - Acceptance of people in general after government recognition and acknowledgment of it.

3- Confirmation of coinage or circulation of currency by the person in charge of financial matters.

Abdel Azim Abu Zeid (2018)

The Islamic investment in electronic currencies can be considered for a number of reasons, as researchers suggest the extent to which the popularity and preciousness of these currencies are available. In fact, dealing with these currencies through various exchanges greatly exceeds the economy of some countries. Mourad Belabbas (2015).

10- Results of the research

At the end of this research work, it is necessary to mention the results that have been reached, as follows:

There are several differences between legal currencies and electronic currencies. Governments issue legal currencies, which in turn are responsible for ensuring their issuance. legal currencies are also characterized by low costs of issuance, and they are protected from monopoly. On the other hand, electronic currencies are issued independently and there is no guarantor for their issuance, so e-coins are easy to monopolize, which causes them a lot of problems and real risks.

Electronic currencies have many advantages that have led to their widespread worldwide. Such as protection against destruction in order to achieve the user's ability to return to any step that was completed during the completion of his transaction, and the ease of trading and transfer resulting from the availability of programs designated for that on the user's personal computer.

Electronic currency technology also has many defects, which are mainly represented in the illegal use of electronic currencies. E-coins are used in money laundering, selling contraband, and so on as a result of the absence of a central authority that supervises the transactions that are completed through the electronic currency system.

The electronic currencies that enter the banks have been accepted from the view of the Islamic religion. On the other hand, electronic currencies that do not enter the banks have been rejected from an Islamic point of view because their issuance is self-contained and therefore their price has become characterized by fluctuation and exaggeration.

11- Recommendations

Digital currencies are considered one of the relatively dangerous types of digital transactions, as these transactions are not monitored by countries and governments, which prompts terrorists to use them as a medium for their commercial exchanges. Also, the use of these currencies follows a set of fluctuating variables in terms

of the value of these exchanges. Accordingly, there should be a set of recommendations that reduce the risks of using electronic currencies, namely:
- Beware of suspicious electronic exchanges.
- Calling on governments to regulate transactions that require electronic exchanges, as these exchanges are essential in the current era.
- Finding some legal controls that help to regulate dealing with electronic currencies. Dr. Ibrahim Ammari (2014)

12- Conclusion

The world is always looking forward to inventing ways and methods that make it easier for people to purchase their needs with the least effort and time. Electronic currencies have served this purpose. However, these electronic currencies are not very popular. they are not traded in several countries as a result of potential risks such as fraud and exploitation.

Accordingly, jurists in the Islamic world had to confront the possible repercussions and find some legitimate solutions that control electronic currency transactions, as they are considered the basic identifier in the time of global epidemics, challenges, and global economic crises.

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Author Information

Mohammed Abdulrahman Alkamali
University Technology Malaysia

Hamad mohamedhassanmohamedalyassi
University Technology Malaysia

Ali Mohamed alfzari
University Technology Malaysia

UhannadsulaimanAlyahyaee
University Technology Malaysia

Abdallah Ishaqgholoom
University Technology Malaysia

Arieffsalleh bin Rosman
University Technology Malaysia