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Research Article

The Operation of *Mudarabah* Deposit in Islamic Financial Institutions in Sri Lanka: with Special Reference to Amana PLC

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Abstract

Banking services have become increasingly essential in the contemporary era of rapid globalisation. Businesses must maintain relationships with financial institutions, whether by choice or necessity. This study examines the implementation of the *Mudarabah* Contract to facilitate Deposit Products and its associated challenges at Amana Bank, which is registered as a fully Islamic bank in Sri Lanka. The study adopts a qualitative, descriptive-analytical method, complemented by extensive library-based research. This study demonstrates that while the *Mudarabah* contract is appropriate for issuing deposit accounts, it lacks certain features that are available to depositors in conventional banks. This limitation arises from the nature of the *Mudarabah* agreement, which is a partnership arrangement without guaranteed capital and profits. Consequently, Islamic scholars have recommended alternative agreements, such as *Wadiya*, *Wakala*, *Kafalah*, and *Tawarruq*, for the issuance of deposit accounts. Therefore, it is suggested that Amana Bank may incorporate above contracts while they designing deposit accounts rather than merely depends on Mudharabah contract. This study proposes recommendations for structural modifications of deposit products in order to provide diversity of deposits with compatible features with conventional deposits.

Keywords: *Mudarabah* Contract, Islamic Bank in Sri Lanka, Amana Bank, Sharia Board.

Introduction

Islamic financial institutions have demonstrated rapid growth on a global scale (Hassan et al., 2020; Minaz et al., 2023). The inception of Islamic financial institutions can be traced back to 1963 with the establishment of the Mit Ghamar Savings Bank in Egypt (Farrag et al., 2022). Subsequently, from 1975 to 2004, numerous institutions and country-specific entities were established to provide investment assistance following Islamic principles. Over 700 financial institutions operate across more than 85 countries worldwide (Asma, 2014).

As a continuation of the growth of the Islamic banking industry, Islamic banking was introduced in Sri Lanka in 1997 with the establishment of Amana Investment. In 2011, the Islamic Financial Service Act was introduced in Sri Lanka (Ahamed & Saujan, 2025). Subsequently, Amana Investment was registered as a fully-fledged Islamic bank under the name "Amana". Among the 19 financial institutions in Sri Lanka, seven function as Islamic Windows and one as a fully Islamic Bank. These institutions command a financial market share of 300 billion, indicating a substantial growth rate (Fawzer, 2015).

Islamic banking has experienced significant growth over the past few decades. The primary factor contributing to this expansion is that Islamic banks operate under guidelines and programmes prohibiting interest-based transactions. Muslim and non-Muslim individuals increasingly utilise Islamic banks for their investment and banking requirements. Islamic banks employ savings accounts as a means of raising capital. These accounts are structured based on the *Mudarabah* agreement, which incorporates profit and loss-sharing principles.

Mudarabah is a partnership involving at least two types of participants. In this arrangement, the partner who invests in the business is referred to as *Rab al-Mal*, while the individual responsible for managing the business is termed *Mudarib* (Saleh, 1986). Neither an investor nor a relative of *Rab al-Mal* is permitted to participate in the business operations (Rahman, 2018). Conversely, the worker, *Mudharib*, is expected to fully engage in business activities (Sadique, 2009). In the event of a profit, it is distributed according to a predetermined proportion as previously stipulated; however, should a loss occur, it is borne entirely by *Rab al-Mal*. The *Mudharib*'s labour is considered as the extent of their loss. According to Handi Khalifah (2024), the assertion that the *Mudarabah* deal will generate disproportionate risks is prevalent. Even if the profit is distributed in an acceptable ratio, the loss will be borne to the full extent of the capital. This *Mudarabah* Agreement is applied to the Savings Account and Fixed Investment Accounts of Amana Bank, the sole separately registered Islamic Bank in Sri Lanka. The study focused on Amana Bank's implementation of *Mudarabah* practices.

Problem Statement

Islamic financial institutions hold a significant position within the contemporary economic framework. Amana Bank, a fully operational Islamic bank registered in Sri Lanka, exhibits a rapid growth trajectory. The *Mudarabah* Agreement has been proposed and utilized as an alternative to traditional deposit mechanisms since the inception of the Islamic banking system, and Sri Lanka is no exception. However, depositors who maintain their deposits are able to safeguard and manage their funds, earn interest-based profits, withdraw them as needed, and engage in monetary exchanges with anybody where needed. These are the primary characteristics of deposit accounts. Although the *Mudarabah* Agreement was recommended for accepting deposits in the Islamic banking system and for generating profits, the fundamental features of traditional deposit offerings, such as deposit investment guarantees and profit assurances, cannot be provided by Islamic banks in the same manner as conventional banks are providing. This may lead to think Islamic finance doesn't have proper alternation for deposits. According to Camara (2013), "Unequal dangers arise from the *Mudarabah* agreement." *Mudahrabah* is a partnership agreement with profit sharing ratio but in case of loss only the capital provider will bear the monetary loss. (Usmani 1997). This may bring a situation to the customers who are not ready face the risk to withdraw their deposits or to find another institution who offer deposits and guarantee at least their capital. Consequently, Islamic banking is practiced in developing countries like Malaysia and Indonesia, where banks do not solely rely on the *Mudarabah* Agreement for deposit activities but also employ '*Qard*' loan agreements, wakalah agency agreements, and other appropriate contracts. These alternatives can guarantee deposits' capital and sometimes along with profits. Nevertheless, all major deposits at Amana Bank are based on the *Mudarabah* Agreement and do not align with traditional banking operations. This practice may lead to customer dissatisfaction at Amana Bank, potentially resulting in a significant decrease in customer investments, while investments in conventional banking options may increase. This study examines the implementation of the *Mudarabah* Contract to facilitate Deposit Products and its associated challenges at Amana Bank, which is registered as a fully Islamic bank in Sri Lanka.

Methods and Materials

This study employs a qualitative descriptive approach, utilising primary and secondary data sources. The primary data were derived from Amana Bank's annual report and account opening details. Additionally, an interview was conducted with the Branch Manager of Amana Bank in Akkaraipattu. Secondary data were obtained from existing literature sources, including research articles, theses, journal articles, and web-based publications. The collected data are presented in a descriptive manner using words and sentences. Where appropriate, quotations and citations have been incorporated as required.

Introduction to *Mudarabah* Contract

In traditional fiqh texts, *Mudarabah* is referred to as al-qirad. Although the two terms '*Mudarabah*' and 'qirad' are used synonymously, the word 'al-qirad' has been predominantly used by Hijaz people (Zamakhshari, 1971). Conversely, the term '*Mudarabah*' is more commonly employed by Iraqi people (Zurqani, 2006). *Fiqh* scholars Hanafi (Rah) and Hambali (Rah) refer to the arrangement as '*Mudarabah*', while Imam Maliki (RA) and Imam Shafi'i (Rah) use 'al-qirad' (Marghinani, 1980), (Ibn Qudamah, 1986), (Ibnu Rushd, 1996), (Khatib, 2006). Imam Sarakhsi (2013), a scholar of the Hanafi Madhhab, states that the word *Mudarabah* is derived from the phrase '*Darb fi al-Ard*'. This phrase translates to 'to undertake a journey'. *Mudarabah* is the most widely recognised term for this concept. This nomenclature is attributed to the contract requiring the agent-manager to travel and transport goods between locations (Azeez, 2013). Similarly, 'al-qirad ' is derived from two possible words. '*Karala*' and '*Mukarala*'. '*Karala*' means cutting, and '*Mukarala*' means equality (Sharakhsi, 2013).

Thus, despite the varying terminology, traditional jurists were in consensus regarding the legal definition of the *Mudarabah* Agreement. They defined *Mudarabah* or al-Qara as a contract between two parties, wherein one (designated as the investor) entrusts capital to the other (designated agent-manager) to initiate a business venture. The agreed-upon profit is to be shared between the two parties based on the profit ratio determined at the commencement of the contract (Khatib, 2006).

The perspectives of legal experts (Madhhab-wise) regarding *Mudarabah* are as follows: Imam Sargashi of the Hanafi Madhhab elucidated that '*Mudarabah*' is derived from Darb fi al-Arl, wherein the agent-manager is entitled to the profits derived from his efforts and work; he is the investor's partner in profit, capital, and decision-making in the business. Al-Khalil of the Maliki Madhab defined '*Qard*' as the appointment of an agent (tawkil) to operate the business with the capital entrusted by an individual to generate profit. Imam al-Nabawi of the Shafi'i Madhab explicated: '*Kiral* or *Mudarabah* is an arrangement wherein capital is entrusted to an individual for trade, and (if understood) profit is shared between the parties.'

Rab al-Mal will bear any losses incurred under this Mujarabah Treaty, and in the event of loss, Muthraib forfeits only the remuneration for his venture and his anticipated share of the profits (Khatib, 2006). Consequently, the *Mudarabah* Agreement is a Madhhab-wise agreement with consistent approvals and guidelines. There are two types of *Mudarabah*: First, *Mudarabah* al-Muqayyadah (Restricted *Mudarabah*): In this arrangement, the *Rab al-Mal*may specify particular business ventures or locations for the Mudarib to invest the capital. Secondly, *Mudarabah* al-Mutlaqah (Unrestricted *Mudarabah*): Under this arrangement, the *Rab al-Mal*grants the Mudarib full autonomy to engage in any suitable business venture.

These concepts warrant further investigation as separate studies. However, they are mentioned here for introductory purposes.

Operation of *Mudarabah* in Amana Bank

Amana Bank conducts all its operations in accordance with Islamic banking principles and the facilitation of interest transactions, encompassing a range of services, including retail banking, SME banking, corporate banking, and treasury and trade finance. Intending to foster growth and enhance lives, the Bank serves 400,000 customers through its expanding network of 33 branches, 20 self-banking centres and 5,400 ATM access points. The Bank has implemented customer facilities such as online banking, online account opening, a VISA debit card with SMS alerts, and other related services.

Amana Bank PLC is a distinct entity licensed by the Central Bank of Sri Lanka. The Bank has been establishing a significant presence in Sri Lanka's banking sector and is focusing on leveraging the growing market opportunity for its unique banking model across the country. The Amana Bank Head Office is situated at 486 Galle Road, Colombo (Based on Amana PLC Annual Reports).

Amana Bank of Sri Lanka uses *Mudarabah* to acquire customer deposits during its banking operations. In this arrangement, the customer functions as *Rabul-Mal*, while the Bank acts as an agent, receiving capital from the customers. The investment is allocated to Shari'ah-compliant business activities, and the profits are distributed to the customers based on the Profit Sharing Ratio (PSR). Consequently, Amana Bank has structured deposits based on *Mudarabah*, including savings accounts, term investment accounts, and children's savings accounts.

1. Savings Account

A savings account is a financial instrument designed by Amana Bank for Sri Lankan residents, companies, societies and corporations over the age of 18 years. The minimum initial deposit required to open this savings account is Rs. 1000/-. An account holder possesses the ability to withdraw funds at their discretion. Upon opening a savings account with Amana Bank, the customer is provided with a passbook, which records transactions and investments in the Bank. Savings Accounts offer additional benefits such as electronic documentation and standing order facilities.

Amana Bank's savings accounts operate on a profit-loss-sharing basis. The management of savings accounts is structured to allocate a portion of the Bank's total profit as shares for the specified savings. An increase in the Bank's profit will result in a proportional increase in the customer's investment profit, while a decrease in the Bank's profit will lead to a corresponding reduction in the customer's profit. This profit-sharing arrangement is based on a mutually agreed profit-sharing ratio (PSR) that the Bank periodically announces. According to the current profit-sharing ratio, 40% is allocated to customers, while Amana Bank retains 60%. Profit calculations are performed daily, with profit distributions occurring every month. It should be noted that, beyond the profit-sharing ratio, the Bank retains the authority to cover expenses related to managing the *Mudarabah* fund.

Amana Bank offers several categories of savings accounts, each with a slightly varying Profit Sharing Ratio (PSR). These categories include LKR Savings Accounts, Employees Savings Accounts, Foreign Currency Savings Accounts (FCL), Women Savings Accounts, Senior Citizen Savings Accounts, Pension Savings Accounts, and Amana Savings Scheme.

2. Term Investment Account

Term Investment Account (TIA) is an investment vehicle offered by Amana Bank to receive funds from customers. This account is structured with specific time frames. The minimum initial deposit required to establish a term investment account is Rs. 50,000/-. The funds deposited in a TIA cannot be withdrawn until the end of the specified period. However, the Bank may, at its discretion, permit early withdrawals. The Bank reserves the right to cancel or reduce the profit distribution rate in such instances. A "Term Investment Certificate (TIC)" is issued to the customer upon opening a TIA, as evidence of their investment with the Bank. The Standing Order Facility for Payment of Profits and the option for automatic renewal at the end of the term are notable advantages for TIA holders.

The TIA operates on the principle of profit and loss distribution. Investment shares are allocated from the profits generated through investment combinations. Such dividends are published by the Bank periodically at a Profit Sharing Ratio (PSR) mutually agreed upon by both parties. Profit is calculated either at the end of the term or monthly and credited according to the customer's agreement. However, in addition to the profit-sharing ratio, the Bank retains the authority to cover expenses related to the management of the *Mudarabah* fund. The profit-sharing structure for term investment accounts is presented in the table below:

No	Investment Period	Customer (%)	Bank (%)
01	3 months	60%	40%
02	6 months	65%	35%
03	1 year	75%	25%
04	1 year (monthly)	70%	30%
05	2 years	80%	20%
06	3 years	85%	15%
07	5 years	90%	10%

Source: Amana Bank PLC official Website, (2025)

This structure ensures that the customer's share of profit increases proportionally with a more extended investment period. Amana Bank offers a variety of Term Investment Accounts to accommodate customer preferences. The Profit Sharing Ratio (PSR) varies slightly among these accounts, which include LKR Term Opportunity Account, FCY Term Opportunity Account, and FLEXI Term Opportunity Account.

3. Children's Savings Account

The Children's Savings Account is an investment vehicle designed by Amana Bank for individuals under 18. The minimum initial deposit required to establish a Children's Savings Account is Rs. 1000. Withdrawal of funds deposited in Children's Savings Accounts is prohibited prior to the account holder attaining 18 years of age. Upon opening a Children's Savings Account, customers are issued a passbook as evidence of investment. Furthermore, maintenance of these accounts enables customers to accrue higher dividends and special incentives.

In Minor Savings Accounts operating under *Mudarabah*-based principles, the profit-sharing ratio is 60:40 in favour of the customer. However, any modifications to this profit-sharing ratio will be communicated to the relevant customers by the Bank.

The profit-sharing ratio varies between accounts and differs according to the currencies invested. The subsequent tables illustrate the variation in profit-sharing ratios between local currency accounts and foreign currency accounts.

The profit-sharing ratio of Amana Bank’s Local currency accounts is shown in the table below. Based on this table, the Bank has allocated a higher share of profits to itself (the Bank's profit-sharing ratio has decreased only in long-term deposits). The fact that Rabul Mall, which has to bear the entire loss, has to receive a lower share of profits shows an asymmetry.

Local Currency Accounts

No	Account Type (LKR)	Customer (%)	Bank (%)
1.	Personal Serving Account	30%	70%
2.	Salary Savings Account	30%	70%
3.	Women's Savings Account	35%	65%
4.	Salary Savings Account (Special Scheme)	35%	65%

5.	Senior Citizens' Savings Account	40%	60%
6.	Retirement Savings Account (Overdraft Facility)	40%	60%
7.	3-Month Fixed Deposit Account (Term-Based)	55%	45%
8.	6-Month Fixed Deposit Account (Monthly Payout)	55%	45%
9.	Children's Savings Account	60%	40%
10.	Savings Plan	60%	40%
11.	Flexi Fixed Deposit Account	60%	40%
12.	1-Year Fixed Deposit Account (Monthly Payout)	60%	40%
13.	1-Year Fixed Deposit Account (Term-Based)	65%	35%
14.	2-Year Fixed Deposit Account (Monthly Payout)	65%	35%
15.	2-Year Fixed Deposit Account (Term-Based)	70%	30%
16.	3-Year Fixed Deposit Account (Monthly Payout)	70%	30%
17.	3-Year Fixed Deposit Account (Term-Based)	75%	25%
18.	5-Year Fixed Deposit Account (Monthly Payout)	85%	15%
19.	5-Year Fixed Deposit Account (Term-Based)	90%	10%

Source: Amana Bank PLC official Website, (2025)

The profit-sharing ratio of Amana Bank's Foreign Currency Account is shown in the table below. Based on the USD-based Foreign Currency Account schedule, the Bank has allocated a higher profit share to itself. The customer is entitled to a lower profit share. The fact that Rabu Mall, which has to bear the entire loss, has to receive a lower profit share shows the asymmetry here.

Foreign Currency Accounts

No	Account Type (USD)	Customer (%)	Bank (%)
1.	Savings Account	20%	80%
2.	3-Month Fixed Deposit Account	25%	75%
3.	Children's Savings Account	30%	70%
4.	6-Month Fixed Deposit Account	30%	70%
5.	1-Year Fixed Deposit Account (Monthly)	30%	70%
6.	1-Year Fixed Deposit Account	32.5%	67.5%

Source: Amana Bank PLC official Website, (2025)

Based on the EUR-based foreign currency account table, the Bank has allocated a higher profit share to itself. The customer has a much lower profit-sharing ratio. The fact that Rabu Mall, which has to bear the entire loss, has to receive a much lower profit share shows the asymmetry here.

No	Account Type (EUR)	Customer (%)	Bank (%)
1.	Savings Account	20%	80%

Source: Amana Bank PLC official Website, (2025)

Based on the EUR-based foreign currency account table, the Bank has allocated a higher profit share to itself. The customer has a much lower profit-sharing ratio. The fact that Rabu Mall, which has to bear the entire loss, has to receive a much lower profit share also shows the asymmetry here

No	Account Type (GBP)	Customer (%)	Bank (%)
1.	Savings Account	9%	91%
2.	3-Month Fixed Deposit	19%	81%
4.	6-Month Fixed Deposit	23%	77%
5.	1-Year Fixed Deposit	26%	74%

Source: Amana Bank PLC official Website, (2025)

Based on the AUD-based foreign currency account table, the Bank has allocated a higher profit share to itself. The customer has a much lower profit-sharing ratio. The fact that Rabu Mall, which has to bear the entire loss, has to receive a much lower profit share also shows the asymmetry here.

No	Account Type (AUD)	Customer (%)	Bank (%)
1.	Savings Account	16%	84%

Source: Amana Bank PLC official Website, (2025)

Findings

Upon analysis of the aforementioned information, it is evident that Amana Bank's savings accounts are exclusively maintained on a *Mudarabah* contract basis. This approach appears to prioritise the Bank's self-interest. Three primary factors motivate a customer to open a savings account with a bank are security of funds, profitability, and the ability to withdraw money at will (Baskar, 2015). The deposit accounts with underline contract of *Mudarabah*, however, fails to adequately address these three objectives.

When a customer establishes a savings account on a *Mudarabah* basis, the customer assumes the role of *Rabbul Mall*, while the bank functions as the capitalist. In the context of bank accounts, this arrangement constitutes uncontrolled Mudarabah (Mudarabah al-Muthlaqa). Mutlaqa fundamentally pertains to Rabbul Mal, and no conditions can be imposed on the customer Mudarib. A bank can invest capital in any form sanctioned by the *Shari'ah*.

Consequently, in the event of bank losses, the customer's objectives as Rabul Mal may be compromised. For instance, the guarantee of capital amount would not be applicable, as the customer would be required to bear any losses independently.

Profits are not consistently guaranteed as anticipated, potentially leading to customer dissatisfaction. Although contemporary banking operations generally allow for the withdrawal of funds at the customer's discretion, this practice may present significant challenges within the *Mudarabah* contract framework. Even in current banking systems, profit sharing is calculated based on the duration of capital deposit. However, the provision for withdrawal will potentially conflict with the fundamental principles of the contract.

For these reasons, relying exclusively on *Mudarabah* practices for savings accounts has not met the objectives of the depositors. Amana Bank might consider implementing a combination of contract procedures such as *Qard*, *Tawarruq*, *Wadiah*, and *Wakalah*. *Qard* is a loan that the debtor is obligated to repay. When *Qard* is applied as an underlying contract for a deposit account, depositors are treated as creditors, while the bank assumes the role of debtor, with the deposit amounts considered as debt that the bank must settle. In this scenario, the capital of the deposits is guaranteed. Additionally, the bank, at its discretion, may provide a certain percentage as a gift without any precondition or agreement, as is the case with *Qard* al Hassan. This is comparable to conventional deposit futures. Similarly, *Wadiah bil Daman* is a safekeeping contract where the safekeeper guarantees the items kept; if *Wadiah* is applied as the underlying contract for the deposit account, the bank is responsible for the cash deposited by the customers. In this case, consumers may benefit from capital guarantees and occasionally receive a gift percentage from the bank at its discretion. *Wakalah* is an agency contract whereby a principal appoints an agent to perform certain duties on behalf of the principal. If *Wakalah* is applied, the underlying contract of the deposit account involves customers as principals appointing the bank as their agent to manage their deposits. In this case, the profit earned by the agent/bank is fully owned by the depositors, with a certain amount, as per the conditions of the agreement, given to the bank as an agency fee. Tawarruq, on the other hand, is widely used in Malaysia as a leading product for deposits as well as lending. It is referred to as a commodity *Murabaha*, where commodities are purchased and sold over the counter at the commodity market. Since there is no Islamic commodity market in Sri Lanka, Amana Bank is currently unable to adopt Tawarruq in its deposit accounts. However, the management and Shariah board of Amana Bank may take the necessary steps to incorporate Tawarruq applications in Sri Lanka, drawing on the exemplary Malaysian-oriented operation.

The Bank can offer savings accounts based on *Qard*, *Wadiah*, *Tawarruq*, and Wakalah principles with profit distribution in the form of gifts, even though the profit-earning motive may be perceived as interest. The other two objectives of capital protection and timely withdrawal are fully assured under these arrangements. Presently, *Qard*-based savings accounts have proven successful in An-Noor, an Islamic banking unit of the Bank of Ceylon, while Wakalah-based savings accounts are operational in LOLC Finance Company's Al-Falah. Additionally, Tawarruq contract procedures are utilised in Islamic banks in Malaysia.

However, as a reputable and registered Islamic bank in Sri Lanka, Amana Bank is obligated to provide guidance to the Islamic banking windows of traditional banks (Islamic window) and small and large financial institutions. Nevertheless, it is currently inappropriate for Amana Bank relay solaly on *Mudarabah* practices exclusively in its savings accounts. This approach could potentially lead to public dissatisfaction with Islamic banking and finance

Conclusion

This study aims to elucidate the process of the Mulaba Deposit Account at Amana Bank in Sri Lanka and the challenges it encounters. The findings, derived from a comparative analysis of savings account practices in traditional banks, indicate that while the *Mudarabah* contract is suitable for the establishment of deposit accounts, it lacks certain features available to depositors in conventional banks. This limitation stems from the inherent nature of the *Mudarabah* agreement, which is a partnership arrangement without guaranteed capital and profits. Consequently, Islamic scholars have advocated for alternative agreements, such as Wadiya, Wakala, Kafalah, and Tawarruq, for the issuance of deposit accounts. It is therefore recommended that Amana Bank consider designing deposit accounts that incorporate these practices. This study proposes recommendations for structural modifications of deposit products, which are currently governed by the *Mudarabah* agreement.

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