



In the name of the Allah, The Beneficent, The Merciful

The Al-Qalam Shariah Scholars Panel is respectfully requested to advise on the Islamic position regarding premium bonds. Are they a suitable way for Muslims to invest?



26th Muharram 1430
23rd January 2009

الجواب هامًا و ملبيًا و منه الصدق و الصواب

Premium Bonds are not suitable for Muslims to use as an investment tool as they are essentially a usurious loan. The premium holder effectively advances a loan to the bond issuer and is thereby entered into a prize-draw with the possibility of being awarded a prize of variable value. Even though Premium Bonds are redeemable only at par and do not attract a fixed rate of return, the condition of the prize-draw renders the structure a usurious transaction as any conditional increase above the principal is usury.

The National Savings and Investments (NS&I) website¹ describes premium bonds as follows:

Premium Bonds are an investment where, instead of interest payments, investors have the chance to win tax-free prizes. When someone invests in Premium Bonds they are allocated a series of numbers, one for each £1 invested. The minimum purchase is £100 (or £50 when you buy by monthly standing order), which provides 100 Bond numbers and, therefore, 100 chances of winning a prize. You can hold up to £30,000.

With 23 million bondholders holding £26 billion worth of Premium Bonds nationwide, Premium Bonds are one of Britain's financial success stories. They are a fun, yet serious way of saving, combining the chance of winning tax-free prizes with the peace of mind that comes from knowing your capital is 100% secure.

Whilst an increase in the form of a prize of variable value is not assured for each bond holder on an individual basis and thus an increase above the principal is not made conditional individually, collectively, the bond holders are assured entry in to the prize draw with the prizes to be distributed on the basis of drawing lots. Thus, an increase above the principal is made conditional collectively subject to the results of the draw. The issuer is contractually bound to hold a periodic draw according to the terms stipulated and faces legal redress in the event it fails to do so. Each bond

¹ http://www.nsandi.com/products/pb/howitworks.jsp#what_are_premium_bonds

holder has a legal right to be entered in to the prize draw according to the terms stipulated making the loan advanced conditional.

The ruling related to premium bonds should not be confused with that related to promotional prizes in the purchase of electrical and other consumer products or with that related to an unconditional gracious increase in the return of a loan – *husn al-qadhâ*. In the former, the purchase price is not a loan but is consideration for the commodity sold. The promotional prize is a unilateral gracious offering – *tabarru'* from the vendor as an incentive to purchase the commodity. In the latter, although the return is an increase upon the principal, if it is not made conditional, neither explicitly by stipulation nor implicitly by being the norm, but is rather a matter of individual discretion, it is not only permitted to give an increase upon the principal but also praiseworthy to do so.

And Allah knows best.

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