



UNIVERSITI SAINS ISLAM MALAYSIA
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ISLAMIC SCIENCE UNIVERSITY OF MALAYSIA

Muamalat

THE NEWSLETTER OF THE FACULTY OF
ECONOMICS AND MUAMALAT



FROM THE DEAN'S DESK

In the name of Allah, the Most Benevolent and the Most Merciful

Alhamdulillah, for enable us to publish the latest issue of Muamalat, the official newsletter of the Faculty

of Economics and Muamalat USIM. This issues contains a number of interesting articles covering areas such as muamalat, marketing, economy and accounting. In this issue, there is also an interview with Dato Majid Mohamad, the CEO of Labuan Reinsurance Ltd which has been appointed as an adjunct professor.

It is a very much pleasure for me to say a few words here. First of all, I would like to take this opportunity to congratulate Prof. Dr. Hajah Mustafa Mohd Hanefah on his appointment as the new Dean of Research and Innovation of USIM. Thanks to him for his contributions to FEM as the Dean for the past four years. His efforts, commitments and dedications to FEM are very valuable and highly appreciated.

My thanks also to Dato' Prof. Dr. Muhammad Muda, Vice Chancellor of USIM for giving me opportunity to manage FEM. I promise to do my best to ensure FEM will become more success in terms of research, publication and also being recognized

as the best place for Muamalat and Accounting studies. To ensure of success, the cooperation from the staffs are very important. I look forward to work together with all peers of faculty.

There is a lot of activities have been planned for this year. The 4th iECONS 2011 (Islamic Economic Systems) Conference with the theme of "Post-Crisis Economic Challenges for the Contemporary Muslim Ummah" will be held from 4-5 October 2011. iECONS is a medium for experts to discuss issues concerning Islamic economics disciplines. Another big activities is the 7th iCEPS will organized by the third year students from 6-9 October 2011 with the theme "Islamic Entrepreneurship Derives Civilization". I hope that both events will repeat the success in the past.

I would like to take this opportunity to wish all the best to students for the upcoming exam. Hope that everybody will do the best and strive for excellent. During long holiday, fulfill it with the constructive activities that benefit you, family and also the public around you.

Finally, it is hoped that articles in this newsletter will be benefited by all. Happy reading and Wassalam.

Dr. Asmaddy Haris.
Dean of Faculty of Economics & Muamalat.

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MALAYSIA'S BASKET OF GOODS AND SERVICES

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INTRODUCTION

Achieving price stability is one of the most important goals of economic. This is because of the way in which other measures of our economic performance react when there is a change in our performance in regards to price stability. Stability is a condition in which the amount of money available in an economic system and the quantity of goods and services produced in it are growing at the same time.

One of the factors that threaten stability is inflation. In economics, inflation is defined as a sustained increase in the general level of prices for goods and services. It is measured as the percentage rate of change in a country's Consumer Price Index (CPI). Some economists suggest that a reasonable rate of inflation should be around 3 to 6 percent. At this rate, inflation is often viewed to have positive effects on the economy as it encourages investment and production and allows growth in wages.

When inflation crosses reasonable limits, it has negative effects. It reduces the value of money, resulting in uncertainty of the value of gains and losses of borrowers, lenders, and buyers and sellers. The increasing uncertainty discourages saving and investment (Abdul Aleem Khan, 2007). Not only can high inflation erode economy from growth, it also makes the poor worse off and widens the gap between the rich and the poor. Second, it redistributes income from fixed income earners (for instance pensioners) to owners of assets and earners of large and variable income, such as profits.

Siddiqi (1996) discusses four "built-in stabilizers" in Islamic economic system to curb inflation. First, equity and sharing based financing which are non inflationary and stable as an alternative to conventional debt financing. Second, zakat, inheritance laws and other redistributive provisions in Islam will change the composition of aggregate demand thereby reducing the fluctuations in aggregate demand. Third, moderation concept in Islamic consumption pattern and avoidance of wasteful expenditure will reduce aggregate demand. Finally, state authority in Muslim countries, treating public money as *Amanah*, will keep public expenditure at the optimal level by minimizing public expenditure and avoiding deficit financing.

Most of the times what causes inflation during early Islamic history were climatic conditions or disruption in transportation that caused a failure in supply leading to sharp rise in food prices. According to Siddiqi (1996):

"Putting an end to debasement of currency and meeting rise in prices by arranging for increased supply are policies rooted in Islamic tradition, the difference in the nature of inflation notwithstanding. These policies are likely to evoke public cooperation as well as endorsement by the *Ulama*. The two other fiscal measures noted above, reduction in public expenditure (with welfare provisions bearing most of the cut) and increased taxation (and domestic borrowing) are doubly doomed. They are not practical. They have no roots in the Islamic past, hence they do not sound familiar, neither to the populace nor to the *Ulama*."

SELECTION OF GOODS AND SERVICES IN THE CPI BASKET

In Malaysia, CPI is published monthly by the Department of Statistics (DOS), Malaysia. CPI reflects changes in the cost to the average consumer of acquiring a basket of goods and services that may be fixed or changed at specified intervals, such as yearly. The goods in the basket are often adjusted periodically to account for changes in consumer habits. The basket contains everyday products such as food, clothing, furniture and financial services. As the products in the basket increase or decrease in price, the overall value of the basket changes. The CPI compares the value of the basket each year and determines the level of inflation for that period. The CPI basket is usually reviewed every five years or so.

The selection of items for inclusion in the fixed basket of goods and services is primarily based on the following considerations (Yusoff, 2000):

- The relative importance of each item to the total household expenditure;
- The representativeness of the item as a price indicator for similar items in the same category;
- Its "priceability", that is, unit of quantity, specification and brand can be clearly specified.

Malaysia's CPI basket was revised in January 2006 with the new base year of 2005. The recent revision introduces a new classification structure "Classification of Individual Consumption According to Purpose" (COICOP), which is the international standard classification of individual consumption expenditure. The recent revision is based on the Household Expenditure Survey conducted between June 2004 and May 2005. Prices of 460 items were used in the computation of the new CPI. These prices were obtained from about 20,000 retail outlets in 98 collection

centers in Peninsular Malaysia; 2,200 outlets in 19 collection centers in Sabah and 2,400 outlets in 18 collection centers in Sarawak (Monthly Statistical Bulletin, February 2007).

From January 2006, the CPI was re-based to 2005 with 9¹ existing groups reclassified into 12 groups to reflect changes in household expenditure patterns. The three new groups are transport, communication and education. Table 1 shows the comparison of 2000 and 2005 expenditure weights in CPI, Malaysia. The new weightage in 2005 shows that foods products have declined slightly from 33 percent to 30 percent, while the share of services items in the basket accounted for nearly half of the total CPI basket.

Table 1: Comparison of 2000 and 2005 ExpenditureWeights in CPI

Items in the CPI Basket	Weights (%)		Difference between (a) & (b)
	Previous CPI (2000=100) (a)	Previous CPI (2005=100) (b)	
Food and Non-Alcoholic Beverages	34.9	31.4	-3.5
Food	33.0	30.0	-3.0
Food at home	23.3	19.6	-3.7
Rice, bread and other cereals	5.5	4.6	-0.9
Meat	3.3	2.9	-0.4
Fish and Sea food	4.9	4.5	-0.4
Milk, cheese and eggs	2.1	1.8	-0.3
Oils and fats	0.8	0.6	-0.2
Fruits	2.0	1.4	-0.6
Vegetables	3.0	2.3	-0.7
Sugar, Jam, Honey, chocolate and confectionary	0.9	0.7	-0.2
Food products and not elsewhere classified	0.8	0.8	0.0
Food away from home	9.7	10.4	0.7
Coffee, tea, cocoa and non-alcoholic beverages	1.9	1.4	-0.5
Alcoholic, Beverages and Tobacco	2.0	1.9	-0.1
Clothing and footwear	3.4	3.1	-0.3
Housing, water, electricity, gas and other fuels	22.4	21.4	-1.0
Furnishing, Hou sehoid Equipment and Routine Household	5.1	4.3	-0.8
Maintenance	1.7	1.4	-0.3
Health	13.9	15.9	2.0
Transport	3.6	5.1	1.5
Communication	4.3	4.6	0.3
Recreation Services and Culture	1.9	1.9	0.0
Education	1.9	3.0	1.1
Restaurants and Hotels	4.9	6.0	1.1
Miscellaneous Goods and Services	100.0	100.0	
ALL ITEMS			
Durable goods	9.4	7.8	-1.6
Semi-durable goods	5.4	4.0	-1.4
Non-durable goods	40.2	38.4	-1.8
Services	45.0	49.8	4.8

Note: The CPI weight attached to Peninsular Malaysia, Sabah and Sarawak is 80.70, 8.98 and 10.32 percent, respectively. Source: BNM Monthly Statistical Bulletin, March 2006.

The items in the CPI basket are further classified into four categories. First is durable goods which have an expected life-time of use of more than one year and are of relatively high values, such as motor cars and refrigerators. Second are semi-durable goods with an expected life-time of one year or more and their values are substantially less than durable goods. Examples are clothing, linen, garden tools and others. The third one is the non-durable goods with an expected life-time of use of less than one year such as food, tobacco and washing powder. Fourth, services category that include house rent, laundering services, medical services, entrance fees to cinemas, expenditure in restaurants and others (Monthly Statistical Bulletin, Feb. 2007).

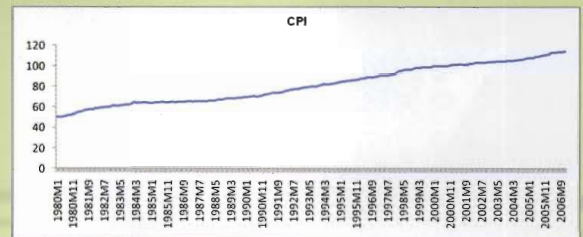
Based on Table 1, the three major subgroups that made up 75 percent of total weightage of the aggregated CPI are food (33.8 percent), gross rent, fuel and power (22.4 percent) and transport and communication (18.8 percent). Administered prices were about 11 percent of the CPI basket in 1998 (Economic Report, 2005).

In short, for CPI, the weight attached to each SITC component remains approximately the same despite the new revision. However, the average inflation rate was 3.3 percent during

¹ The 9 groups are: food, beverages and tobacco; clothing and footwear; gross rent, fuel and power; furniture, furnishings and household equipment and operation; medical care and health expenses; transport and communication; recreation, entertainment, education and cultural services and miscellaneous goods and services. These groups are in turn divided into 38 sub-groups and the sub-groups into 121 expenditure classes. For example, the clothing and footwear group consists of two sub-groups, clothing other than footwear and footwear including repairs. The clothing other than footwear sub-group is further sub-divided into six expenditure classes: shirts, dresses, blouses, etc.; suits, jackets, trousers, etc.; underwear, stockings and socks; bathing suits, hats and rain apparel; fabrics and payment for sewing and knitting (Yusoff, 2000).

the early 1980s and declined to 2.1 percent during 2000-2006. Figure 1 illustrates the trend in CPI in Malaysia over the period 1980-2006.

Figure 1: Trend of CPI in Malaysia, 1980 - 2006



Source: BNM Statistical Bulletin. Data in 2000=100

CONCLUSION

Inflation, to one degree or another, is a fact of life. Consumers, businesses and investors are impacted by any upward trend in prices. The CPI releases can move markets in either direction. An upward movement of low or moderating inflation has minimal impact on the market but news on high or accelerating inflation might have an adverse impact on the economy. The important thing to remember is that it is the trend of CPI over an extended period of time that is more relevant than any single release.

In short, the task of keeping the rate of inflation low and stable is usually given to monetary authorities. Generally, these monetary authorities are the central banks that control the size of the money supply through the setting of interest rates, open market operations and the setting of banking reserve requirements, among others.

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SHARI'AH STUDIES IN ISLAMIC BANKING AND FINANCE: A REVIEW

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INTRODUCTION

The establishment of Islamic financial institutions provides a platform for Muslims to implement some aspects of the *shari'ah* in their daily life. By having these institutions, Muslims have the opportunity to demonstrate the actual workings of an equitable financial system based on the application of Islamic legal traditions which have long been advocated by Muslims jurists and economists. After more than 150 years of practical exclusion (F.E Vogel and S.I. Hayes III, 1998), Muslim can now implement Islamic principles in their business dealings and economic transactions. As a result of combined efforts between *shari'ah* scholars and Islamic bankers, various classical commercial contracts such as *murabahah*, *ijarah* and *wakalah* have been put into practice as the underlying principles in Islamic banking operations.

It is realized however, the application of the classical contracts in the modern banking business has raised a number of *shari'ah* issues. The crux of the issues lies on the *ijtihad* made by Islamic banks' *shari'ah* committees in their attempt to modify the classical contracts to adapt the modern banking conditions. Such modification is understandable since Islamic banks operate in a completely different environment when compared to what had been elaborated by the classical jurists. It is generally acknowledged that not all of the classical *fiqh* rulings are applicable in the modern times. Hence, new *ijtihad* is needed to amend the classical *fiqh* doctrines so that they become relevant in meeting the sophisticated financial needs of contemporary Muslims. The practices of *ijtihad* in turn stimulate *shari'ah* discussions in Islamic banking and finance.

TWO CAMPS OF SHARI'AH SCHOLARS

In general, there are two approaches adopted by *shari'ah* scholars in this respect. The first approach is to advocate the innovation of new Islamic financial products based on the adaptation of various medieval contracts. Supporters of this approach are normally *shari'ah* scholars who work closely with Islamic financial institutions. They try to understand the problems faced by the Islamic bankers and then suggest possible solutions according to the principles of *shari'ah*. Hence, their work mainly focuses on how to apply the *fiqh* doctrines in creating financial instruments that are compatible with conventional products in all aspects. These scholars are responsible for the *shari'ah* compliance of existing Islamic financial products and represent the *shari'ah* governing body in most of the Islamic banks (Engku Ali, 2003). However, due to the duplication orientation adopted by them, the current products so far are seen insignificantly different from their conventional counterparts.

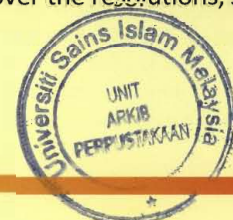
The duplication orientation has lead to criticism raised by the other group of *shari'ah* scholars. This group questions the conformity of current Islamic banking products to the principles and ethical frameworks of Islamic commercial law propounded by the classical jurists. For them, many of the *fatwas* and resolutions passed by the *shari'ah* committees (SC) of Islamic banks contradict with the rulings found in classical *fiqh*. The *shari'ah* committees are accused to be too lenient in satisfying the demands of Islamic bankers. This group also criticize the legal methodology adopted by the *shari'ah* committees. It is argued that in assessing the *shari'ah* compliance of new financial products, the *shari'ah* committees can be very rigid, concentrating solely on the legal technicality and at the same time be very flexible, adapting an unregulated doctrine of *maslahah* (Shaharuddin, 2010).

The *fiqh* debates between the two groups have led to another topic of interest among the *shari'ah* scholars. Nowadays, there is growing tendency among the *shari'ah* scholars to discuss the topic of legal theory (*usul fiqh*) of Islamic banking. At present, discussions regarding the *usul fiqh* of Islamic banking focus on the assessment of banking products at macro level by analysing them from the *maqasid* (objectives) of *shari'ah* perspective. Research conducted in this topic support the idea to evaluate banking products based on wider perspective, not only emphasise on the legal technicality (*al-'aqqd*) but taking into account the extent to which a particular Islamic banking product could repel the harm (*madarrah*) commonly found in the conventional banking instruments (Rosly, 2010). In addition to that, *shari'ah* scholars who have shown interest in the topic attempt to determine parameters (*dhawabit*) of *maslahah*, *dharurah*, *urf* and *makhraj*; the legal tools that frequently used in deducing new *hukm* in this area (see for example Akram Laldin, 2010). The aim of the studies is to provide additional references to the *shari'ah* committees when deciding the legality of proposed Islamic banking products.

THE WAY FORWARD

However, it is important to note that all the previous studies are conceptual and theoretical in nature. They are conducted merely based on the assumption that the *shari'ah* committees are in need of such research in *usul fiqh* of Islamic banking. As indicated earlier, the assumption is made as result of a few controversial resolutions or *fatwas* adopted by the Islamic banks. In other words, due to some disputes over the resolutions, *shari'ah* committees are seen

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SHARIAH AUDIT OF FINANCIAL STATEMENTS

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The newly introduced Shariah Governance Framework issued by Bank Negara Malaysia (BNM), taking into effect on the 1st January 2011. It specified that the scope of the Internal Shariah audit shall include any area which involves Shariah compliance issues such as products and services, shariah review function, financial reporting, Shariah governance practices, organisational structure, human resources, processes, marketing and information system.

The Framework requires for the Internal Shariah Audit function to comprise of:

- i. Shariah compliance for Islamic Financial Products and Services
- ii. Shariah compliance In Financial Statements
- iii. Shariah compliance in Operations
- iv. Shariah compliance in Branch operations

Internal Shari'ah auditors shall perform audit of financial statements in order to verify that the management of IFIs perform its fiduciary duties to the stakeholders. The following are the areas of Shariah compliance in financial statements that should be audited:

- Financing of a Shariah compliant business must be originated from halal source, either it is inform of debt of equity financing. The maximum percentage of debt financing, in many jurisdictions is capped at 33.3% (1/3) of the total capital of the company.
- Islamic banks are exposed to business risks such a market, liquidity, currency and operational risk. Risk generates unexpected losses and hedging restricts the impact of the loss. Islamic hedging instrument is based on real economic activity and real balance sheet items. Hedging is permissible if derivatives involve the actual transaction and do not cause injustice. Instruments used by IFIs must be Shariah-compliant as indicated by the Shariah authorities. IFIs must be able to demonstrate and disclose that hedging is used for the purpose of hedging actual risks of the relevant party. Transaction should not be for the purpose of speculation and must be real transactions involving the actual transfer of ownership of real assets i.e. actual risk and real settlement.
- IFIs must identify and disclose the amount of non-Shariah compliant investment previously acquired. It is responsibility of the IFI to dispose the investment according to the guidelines by the Shariah authorities.
- Profit Equalisation Reserve (PER) and Investment Risk Reserve (IRR) is a mechanism used by IFIs to reduce the fluctuations in the profit rates payable to the Investment Account Holders (IAH). IFIs must disclose the policy on PER and state the ownership of the PER balance as at the accounting period in the notes to account.
- Ibra' is the discount for early settlement of financing amount, previously agreed in the sale agreement. IFIs

may incorporate the clause on undertaking to provide Ibra' to customers who make early settlement in the Islamic financing agreement. This clause shall be stipulated under the method of payment. With the inclusion of the Ibra' clause in the financing agreement, the bank is bound to honour that promise. However, the act of granting a rebate in case of prepayment should entirely be voluntary and at the discretion of the seller. The rate of discount cannot be pre-specified in the contract. The contract per se, cannot contain a stipulation for subsequent increase or decrease in price. IFIs must clearly state the method of calculation of Ibra' (Declining Profit Method, or other methods) to enhance transparency of information to the customers.

- IFIs must have stipulated policies of zakat computation and the manner it is distributed as agreed by the Shariah Committee in the notes to the account.

In summary, the Shariah compliance in financial statements can be shown in Diagram 1 below:

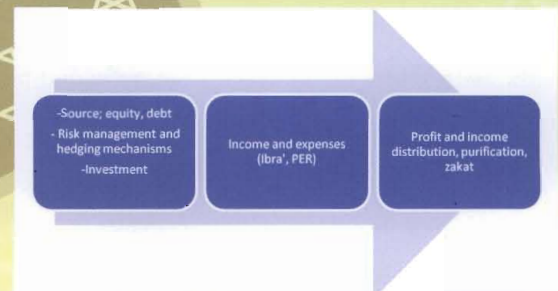


Diagram 1: Central Shariah Issues in financial statements

In conclusion, the audit of financial statement to verify that they are following the Shari'ah involved many Shari'ah issues. It is essential to have the audit performed on financial statements in order for to ensure the transactions in IFIs carried out, recorded and reported in the manner compliant to Shari'ah.

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IS PRIVATE HEALTH INSURANCE A NECESSITY?

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INTRODUCTION

People need private health insurance to cover private health care costs which have been rising considerably. In many countries such as the United States, the health care system relies heavily on private health insurance and it is a must have item for every individuals. In extreme case, an individual's access to treatment can be denied if he/she does not have private health insurance. In the United States or countries such as Australia and Canada, private health insurance is used to cover health care costs from both public and private health care providers for either outpatient or inpatient treatments.

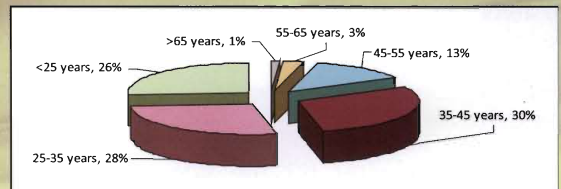
In Malaysia, private health insurance is usually limited to private inpatient treatment or hospitalisation services. Visits to general practitioner are not covered by the private health insurance. Generally, the patient is required to pay the hospital bill first and subsequently claim from the insurance company later, however if the health insurance plan comes with a hospital admission assist card, claims can be settled between the hospital and the insurer directly (Pee, 2008). In Malaysia, with affordable and easy access to public and private health sector, people have an option whether to have private health insurance or not, or in other words, private health insurance in Malaysia is still voluntary.

THE DEVELOPMENT OF PRIVATE HEALTH INSURANCE

The introduction of private health insurance started in the early 1970s. At that time, the individual spending on health insurance was limited to personal accident, workmen's compensation and motor (third-party bodily injury) insurances. In 1996 the introduction of personal income tax relief up to RM3,000 for the purchase of private health insurance or education insurance policies gave rise to an increase in demand. Soon after, a policy relaxation allowed life insurers to sell stand alone private health insurance policies. Nowadays, private health insurance has become more popular among Malaysians.

In 2005, 15% of the total population were covered by private health insurance (Central Bank of Malaysia, 2005). Central Bank of Malaysia (2005) also reported that 80% of total private health insurance sales were individual policies. As a result, annual premium income generated from yearly renewable private health insurance policies increased by an average of 28% to RM1.5 billion in 2005. 84% of individuals covered were below the age of 45 years. Figure 1 shows the distribution of individuals covered by private health insurance policies by age in 2005.

Figure 1: Distributions of individuals covered by private health insurance policies by age in Malaysia, 2005



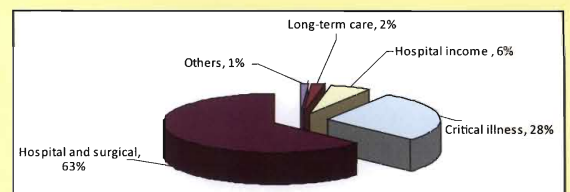
Source: Insurance Annual Report, Central Bank of Malaysia (2005)

TYPES OF PRIVATE HEALTH INSURANCE

Four common types of private health insurance are hospitalisation and surgical insurance, critical illness or dread disease insurance, hospital income insurance and accidental and hospitalisation insurance (Pee, 2008). According to the Central Bank of Malaysia (2005), hospital and surgical premiums written. Critical illness policies comprise 28%, hospital income policy 6%, long-term care policies 2%. Figure 2 shows the distribution of premiums by types of private health insurance cover in Malaysia.

A comprehensive hospitalisation and surgical insurance policy covers in-hospital charges such as surgical expenses (surgeon's fees, anaesthetist fees and operating theatre fees) and non-surgical expenses (room and board expenses, intensive care unit, hospital supplies and services, daily in-hospital physician's visit and lodging expenses); out-of-hospital benefits such as pre-hospitalisation benefits, post-hospitalisation benefits and out-patient benefits (out-patient cancer treatment, out-patient kidney dialysis treatment, outpatient surgery, emergency out-patient accidental benefit, home nursing care, ambulance fees etc.); and other benefits which include daily cash allowance at government hospital, 5% government service tax reimbursement, general practitioner's treatment at private clinic etc. In 2008, there were about 35 hospitalisation and surgical insurance products offered by 21 insurance companies in Malaysia (Pee, 2008).

Figure 2: Distribution of premiums by types of private health insurance covers in Malaysia, 2005



Source: Insurance Annual Report, Central Bank of Malaysia (2005)

Critical illness or dread disease insurance pays a lump sum amount e.g. RM100,000 whenever the customer is diagnosed with one of the 36 illnesses¹. Meanwhile, hospital income insurance pays cash benefit e.g. RM200 per day whenever the customer is admitted to a hospital and accidental and hospitalisation insurance pays out only when the customer is hospitalised due to accident.

Lim et al. (2007) highlight some important features of the various policies available. A policy may be a guaranteed renewable policy which means that the customer will be allowed to renew his/her policy even though he/she contracts a critical illness, but may also offer no right of renewal. Policies may provide payment of claims based on a per disability contract instead of an annual general limit policy. Others may cover only a restricted choice of specific panel hospitals. It is a common practice in Malaysia that health insurance plans do not cover pre-existing health conditions, specified illnesses in the first year (or a specified period e.g. 120 days) and any medical or physical conditions arising within the first 30 days of the insured person's cover or date of reinstatement whichever is latest except for accidental injuries. Some health insurance plans are renewable yearly and some are guaranteed renewable up to a lifetime limit. Some medical cards also have co-insurance contracts².

To counter the effects of adverse selection, all private health insurance is risk-rated which means higher risk individuals or patient with pre-existing conditions may either be denied coverage or have to pay a higher premium for the policy.

1 The 36 illnesses are heart attack, stroke, coronary artery disease requiring surgery, cancer, kidney failure, fulminant viral hepatitis, major organ transplant, paralysis/paraplegia, multiple sclerosis, primary pulmonary arterial hypertension, blindness, heart valve replacement, loss of hearing/deafness, surgery to aorta, loss of speech, Alzheimer's disease/irreversible organic degenerative brain disorders, major burns, coma, terminal illness, motor neurone disease, AIDS due to blood transfusion, Parkinson's disease, chronic liver disease, chronic lung disease, major head trauma, aplastic anaemia, muscular dystrophy, benign brain tumor, encephalitis, poliomyelitis, brain surgery, bacterial meningitis, other serious coronary artery disease, apallic syndrome, AIDS cover of medical staff, and full blown AIDS.

2 Co-insurance means that the patient has to pay a certain amount of the medical fees, normally at 10% - 20% of the total medical fees incurred, while the balance will be paid by the insurance company.

continues from page 4

as not having sound legal methodology in assessing the compliance of Islamic banking products. In my opinion, it would be better if the assumption is supported by empirical study, investigating the actual process of *ijtihad* in the Islamic banking institutions. It might be interesting to look at how the *shari'ah* committees conduct the task of determining the legality of Islamic banking products. Such empirical study would not only educate the public with the *ijtihad* process but more importantly reinstate those who have begun to questioning the credibility of the *shari'ah* committees. In addition to that, it would identify the real limitations faced by the *shari'ah* committees and suggest possible solutions and improvements.

Merican and Yon (2002) have pointed out the issue of 'cream skimming' and 'risk selection' in insurance industry practice in Malaysia. This problem may contribute to greater inequity since the insurer will tend to cover high-income groups to the extent that these groups have lower risk of illness. Furthermore, there is a tendency for people who are insured to seek more health care which can lead to moral hazard problem.

CONCLUSION

The coverage of private health insurance policies in Malaysia is still not comprehensive. Even though private health insurance has become more popular among Malaysians, limited coverage offered by various health insurance plans do not attract many people to buy health insurance policies especially people with existing health problem. Private health insurance is more attractive if it covers both outpatient and inpatient care, and even dental care.

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REPAYMENT PROBLEMS IN MICROCREDIT PROGRAMS

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Access to financing is an important aspect in the business operation of micro enterprises. Normally, they are excluded from the banking system because of high risk and they don't have asset as collateral. Microcredit around the world shows that it can be an effective way to promote the development of micro/small enterprise. Prior studies proof that access to micro credit contributes to poverty reduction and enhance business activities of the poor (Zapalska et al., 2007; Khandker, 2005; Mainsah et al, 2004; Matin et al., 2002). Adekunle (2007) suggested that the entrepreneurial ability, accessibility to credit and business success of people in Cooperative Thrift and Credit Societies were better and significantly different from non-members.

However, repayment problems such as pay late from the schedule, pay less from the total instalment and never paid limit the ability of microcredit institutions to channel the fund to other microenterprises. This is because majority of the micro credit institutions are Non Governmental Organizations (NGOs) who are receive fund from donors and government. Loan repayment rate is one of the most critical issues of microcredit institutions that concern all stakeholders (Sharma & Zeller, 1997; Marr, 2002; Maata, 2004; Godquin, 2004) where the high loan default rate is the primary cause of the failure of microcredit institutions (Yaron, 1994; Woolcock, 1999; Marr, 2002; Maata, 2004). Adams et al. (1984) found that the failure of a large number of state-sponsored agricultural development banks in many developing countries was due, among others, to their inability to ensure good repayment rates. The agency problem, adverse selection and moral hazard that appear as a result of information asymmetries are the main reason why these happened. This is because the lenders cannot observe the behaviors of their clients either they are honest and dishonest. The lenders can only observe the outcome of their loans either the clients repay or not.

There are four factors that affect repayment performance in microcredit programs which are individual factors, firm/business factors, lender factors and loan factors. Several studies (Hoque, 2000; Colye, 2000; Ozdemir & Boran, 2004) show that when a loan is not repaid, it may be a result of the borrowers' unwillingness and/or inability to repay. Stiglitz and Weiss (1981) recommend that the banks should screen the borrowers and select the "good" borrowers from the "bad" borrowers and monitor the borrowers to make sure that they use the loans for the intended purpose. This is important to make sure the borrowers can pay back their loans. Greenbaum and Thakor (1995), suggest to look at a borrower's past record and economic prospects to determine whether the borrower is likely to repay or not. Besides, characters of the borrowers, capital needed, collateral requirements, capacity or ability to repay and condition of the market should be considered

before giving loans to the borrowers. Age, educational level, gender and borrower's business experience are the important factors that affect the repayment performance.

Some authors link the repayment performance with firm/business factors such as Nannyonga (2000), Arene (1992) and Oke et al. (2007). Oke et al. (2007) mention that firm's profit significantly influenced loan repayment. Besides that, Khandker et al., (1995) raise the question of whether default is random, influenced by erratic behavior, or systematically influenced by area of business operation that determine local productions conditions or branch-level efficiency. Their study on Grameen overdue loans supports the idea of partial influence of area of business operation. Rural electrification, road width, primary educational infrastructure and commercial bank density are positively correlated with a low default rate as well as predicted manager's pay. Firm's profit, business sector and area of business operation are among the factors contributed to repayment performance.

However, Stearns (1995) argues that, "it is the lender not the borrower, who causes or prevents high levels of delinquency in credit programs. Awoke (2004), reports that most of the default arose from poor management procedures, loan diversion and unwillingness to repay loans. Therefore, the lenders must devise various institutional mechanisms that aimed to reduce the risk of loan default. Less transaction cost and threat of sanctions (loss of future credit, public embarrassment and loss of social standing) are the factors that can improve repayment rate in microcredit programs.

In contrast, Hulme & Mosley (1996) argue that the important factors contribute to loan repayment performance are the design features of the loan. They categorise the design features into three categories namely access methods, screening methods and incentive to repay. Access methods generally ensure that poor people access the loans not the richer people and the features include maximum loan ceilings and high interest rate. While, screening methods are used to screen out bad borrowers. While, Copisarow (2000) found that defaults generally arise from poor program design or implementation, not from any essential problems with the borrowers. Amount of loan received, repayment method and repayment period are among the factors influence repayment rate in micro credit programs.

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MARKETING OF MALAYSIAN PROPERTY: INVESTMENT PROSPECTS VERSUS PRICING ISSUES

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INTRODUCTION

In recent years, the property in Malaysia is getting a lot of attention both from local and foreign investors. Many still parcel about the factors behind and what is the continuous factors may sustain it growth and will it be a major boom of the property prices. Malaysian property prices are beginning to rise as the economic recovery in the country continues. Last year registered the strongest house price increases for a decade. The national house price index rose 6.2% in the third quarter of 2010 while the increase in Kuala Lumpur was 9.9% during this period. The main attraction for investing here is the reasonable rental yields of between 5 to 7%. The cost of buying a property in Malaysia is quite low, but it's important to regard it as a mid-to long-term investment as capital gains tax is liable on any property held for less than five years.

INVESTMENT PROSPECTS ON MALAYSIAN PROPERTY

By looking at Klang Valley as an example, prices of property are increasing faster than rentals, so this is a good sign investing in Malaysian property market. These property price increases are due in no small part to the recovery of the economy which grew by 7% in 2010, but in general house prices here remain relatively stable and are not subject to the boom bust cycle of other countries. This recovery is contributed by Malaysia's economy which is based around manufacturing and it's one of the largest exporters of electrical goods and appliances and semi-conductor devices in the world. It does depend quite heavily upon exports and was affected by the global economic crisis, especially since the Malaysian ringgit has strengthened against the dollar.

15 years. The prime attraction of property ownership in Kuala Lumpur is income. Gross rental yields have fallen somewhat over the past year. Rents have not kept pace as nominal prices have risen. Yet the decline has been gentle, almost invisible. The 120 sq. m. condominium category remains the best-paying investment, with gross returns of 7%, but last year, researchers found that rental yields averaged over 8% for this size. Gross rental yields on condominiums generally range from 5% to 7%. Bungalows have lower yields, typically just over 4%.

PROPERTY PRICING ISSUES AND THE ROLE OF GOVERNMENT

To most individuals housing represents the largest single investment item of a lifetime. This is especially true as family incomes increase and housing viewed less as a basic consumption and more as a key to a secure future. Developing countries have learned that the provision of decent housing for all cannot be left to the play of the market forces alone. Whereas the well-to-do few have no trouble in obtaining comfortable homes, the majority of families in the developing countries go without adequate housing and related facilities. Therefore, the governments found it necessary to intervene in the production of housing for their population. The government has been helping the lower income group by putting many policies like every project must has a low cost apartment in every township; putting taxes and pressures to avoid unnecessary speculation on property prices.

CONTRIBUTING FACTORS OF INCREASING PROPERTY PRICE

1. Changes In Government Policies

All these policies explained above are waived in 2007 like now there is zero tax on property gain transaction in Malaysia. Furthermore, the ministry of housing has set up better procedures to make the process of build, buy and sell more efficient; allowing EPF contributors to apply for monthly withdrawal to reduce their installment pressures or to buy a house; reduce stamp duty on RM 250,000 houses and below; lack the rules for foreign ownership and even provide incentives for foreigners with the recent 2nd Home Campaign to own a their second property as a home in Malaysia.

2. Population Growth and Age Group

Population is also the demand factor in the property market. Local population is the citizens of Malaysia and the foreign population is those who come in with 2nd Home campaign or as expatriate that temporally working in Malaysia. The age group of Malaysia that almost 65% above of the whole nation population is at 35 years old and below. From 35 years old to 45 years old probably got another 10% are getting more

Malaysia: gross rental yields have moderated

KUALA LUMPUR - Bungalows	COST (US\$)		YIELD (p.a.)	PRICE/SQ.M. (US\$)	
	TO BUY	MONTHLY RENT		TO BUY	MONTHLY RENT
350 sq. m.	1,071,700	4,036	4.52%	3,062	11.53
450 sq. m.	1,339,200	4,874	4.37%	2,976	10.83
600 sq. m.	1,698,600	6,516	4.60%	2,831	10.86
1050 sq. m.	2,977,800	8,957	3.61%	2,836	8.53
KUALA LUMPUR - Condominiums					
75 sq. m.	144,225	810	6.74%	1,923	10.80
120 sq. m.	185,520	1,072	6.93%	1,546	8.93
170 sq. m.	337,450	1,651	5.87%	1,985	9.71
250 sq. m.	638,500	2,693	5.06%	2,554	10.77
400 sq. m.	1,150,400	4,504	4.70%	2,876	11.26

Districts researched : Ampang, Ampang Hillir, Bangsar Baru, Bukit Kiara, Damansara Heights, Jalan Ampang, Kenny Hills, KLCC (Kuala Lumpur City Centre), Mont Kiara, Sri Hartamas, Taman Tun Dr. Ismail, Ukay Heights

Source: Global Property Guide Definitions: Data FAQ

The extraordinary stability of residential property prices in Malaysia—rising in some years by 2% or 3%, falling in other years by a few per cent—means that the observer is never shocked by a sudden boom or price-collapse. In inflation-adjusted terms, prices have been almost completely stable for the past

buying power to invest in their 2nd or 3rd property. It means there will be a lot of buyers are flooding into the market in the next 5 to 10 years.

3. Healthy growth of GDP

Since the early of 90s, Malaysia has been enjoying a robust GDP growth between an average of 7-9%. Until recently, the growth rate is stabling between 5% to 6%. The milestones are changing to further stimulate internal growth as the government is pouring bullets into building the local infrastructures and creating special economic zones in its yearly fiscal policy and master growth plan. It has been a long time that we have a GDP income around USD 4,000 to USD 5,000 per head in Malaysia. When we are moving into a high income, high margin and high tech service oriented economy, we cannot continue to have low cost strategy and we need quality human capital development in the country to compete in the global scale. Thus, boosting asset values is a wise strategy to boost local GDP income and also strong property price will have an effect in assisting the currency rate and also the local stock market- KLSE. This is a good move by the government and we also agreed that this will benefit the whole nation.

4. Globalization Effect

It is not just limiting to business or MNC (Multi National Corporation). It is by far even to tell all that the world is gradually becomes one. No matter where you stay and what country are you living in. Everyone can move from country to country due to business, education, cultural exchanges, sports and more. The economics' factors that drive prices sky high in Singapore, Thailand, Indonesia, Hong Kong, Shanghai, Korea, Japan, Australia and Europe. There will not be any cheap property anymore in any corners of the world depending on the urbanization rate of those cities. It is a matter of time but given those fundamentals in Malaysia economy, it will be also a pressure to boost the property price locally. We should not compare within ourselves between the current price and the historical prices. We have to look globally and compare with our peers. Even today, if you compare to US property market that has been impacted by the sub-prime loan crisis.

5. Rising Cost of Material

US dollar heading downwards, and believe it is on purpose by the Federal Reserve and their governmental policies due to the strong challenge of China and Asian booming economies that cause continuous trade deficit in US. When dollar is heading down, all commodities trade with the benchmark using US dollar has been rising steadily. Example: Crude oil, steel, gold, iron and even food. Couple with the intensifying demand from high growth countries like China, India, Indonesia and potentially African countries in the coming years. This is no more inflation, but is rather as asset revaluation stage. Most government has measured their CPI (Consumer Price Index) with core components that always excluded many necessity components that is vague in telling the clues related to actual inflation.

CONCLUSION

The conflict exists when affordable house for some group of community seems getting more difficult to be prepared in the near future due to raising in property price. Given all factors that we have discussed above, It is strongly believes that low cost property in Malaysia is going to be a past subject. If we are

following steps of Hong Kong, Singapore and Korea by example to be a developed nation, we should expect the property prices to be playing a catching role in comparison to these markets. Thus price of property in Malaysia will have good years ahead and become a good investment instrument.

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“ SPECIAL COLUMN WITH ADJUNCT PROFESSOR OF FEM: DATO’ MAJID MOHAMAD. ”

INTERVIEWED BY PN SYAHIDAWATI SHAHWAN.

Assalamualaikum Dato’

I am from the Faculty of Economics and Muamalat would like to seek your pleasure to be our guest in our biannual newsletter. The newsletter will be distributed to all Islamic banking and takaful players, IPT’s, state religious councils and students.

We humbly hope that Dato’ could answer the following questions.

Thank you.

Newsletter FEM : Could you please tell us about yourself with regards to your job experience and contribution to insurance and takaful industry?

DMM : I started my career with Bank Negara Malaysia in 1977 after completing my first degree at University Malaya and during my 15 years with the Bank, I gained invaluable experience in the fields of central banking, commercial banking and finance and takaful. I left the Bank in 1994 to join the insurance industry and became CEO of 4 insurance companies. I am now CEO of Labuan Re, a conventional reinsurance company with a Retakaful window. My most valuable experience which I considered as an epitome of my career is my involvement in the setting up of a Lloyds Retakaful syndicate which, inshaallah would be a reality soon.

Newsletter FEM : How do you position the takaful industry in the world today? (Or in Malaysia particularly)

DMM : The takaful industry has gone through rapid development since the establishment of the first takaful company in Sudan some 30 years ago. From focusing on muslim ummah only, takaful products have now becoming an alternative to conventional insurance to consumers from all walks of life irrespective of religion. Malaysia has been recognized as the pioneer in pushing the takaful industry to its current level with a share of around 27% of the world’s takaful contributions. With the Government’s effort to fortify Malaysia as the centre for Islamic finance, developments of the industry would be further intensified to reach the level of its conventional counter-part, if not higher in terms of acceptability.

With the current growth rate at more than 20% year-on-year, the size of the industry is estimated to surpass the USD10 billion mark in 2010. There are currently more than 200 takaful and 20 retakaful operators around the world and the number is increasing due to the awareness as well as demand for ‘ethical insurance products’ as a consequence of rapid economic growth, especially in the new developing Muslim countries.

Newsletter FEM : As the CEO of Labuan Reinsurance Ltd., could you share your views on the development of retakaful industry?

DMM : Retakaful is another important link in the supply chain of the takaful industry which provides capacity to enable takaful operators to grow and underwrite bigger and sophisticated risks. In Malaysia, apart from the two existing locally-owned Retakaful operators, there are a few more foreign-owned operators, in addition to another half a dozen operators based in Labuan IBFC. As the takaful industry is going through its developmental stage, more Retakaful capacity is needed especially for takaful operators wishing to underwrite large and sophisticated risks such as aviation, oil and gas and liabilities.

One of the problems faced by Retakaful operators is the small capital base that would prevent them from providing capacity needed by over 200 takaful operators in the world. Due to their low capitalization, these Retakaful operators could not obtain acceptable ratings to meet the minimum security ratings required by most takaful and regulators. This would put most retakaful operators at a disadvantage position compared to its conventional counter-part.

Apart from the ratings issue, there exist takaful operators which are still resorting to an easy way out by purchasing covers from conventional reinsurance companies hiding behind the “dharurah” principle. In this regards, Shariah Advisory Councils of takaful operators need to play a more proactive role in ensuring the management of thier takaful operators should exhaust Retakaful capacity first before resorting to conventional covers. This is important not only to ensure the speed of Shariah-compliant by all takaful operators is heightened but also to maintain its credibility of the industry.

Newsletter FEM : In your opinion, was there any impact of the global financial crisis on the takaful/retakaful and insurance/reinsurance sectors?

DMM : As many are aware, insurance companies (including takaful operators) are not the culprits for the global

financial crisis. This is due to the fact that insurance companies unlike banking institutions would not face liquidity crunch as insurance claims would not be paid on demand, unlike deposits in the banking industry which have to be paid on demand when the depositors decide to withdraw their deposits. Further, insurance industry would not be subjected to a systemic risk as the interdependency of one insurance company with the other is minimal; only through a very limited co-insurance or reinsurance arrangements.

People always cite AIG Group as an example how vulnerable the insurance entity would be during the financial crisis. This is not true as, although AIG Group is known as an insurance entity, the problem faced by the Group is actually contributed by its financial product division which is involved in selling credit default swap (CDS) – a financial guarantee product. While this division contributed less than 3% of turnover of the AIG Group, it incurred losses was colossal, necessitating the Government bail-out.

Most of the losses impacting the insurance industry was a consequence of impairment and diminution of value in investment assets which insurance companies need to provide for. Unlike its banking industry counterpart, none of the insurance companies (except the AIG Group) required substantial capital injections.

Newsletter FEM : As an industry player, what are the strategies needed for the takaful /retakaful industry to have a better position as compared to insurance/reinsurance industry?

DMM : To be at par and to compete with its conventional counterpart, the takaful industry need to strengthen its capabilities, as follows:

1. Financial muscle – this is important to gain acceptance as reliable and strong security providers and provide safety nets to policy-holders;
2. Global acceptance as a credible alternative system to the conventional insurance – this could be achieved through standardization of models, accounting treatment, shariah opinion/interpretation and shariah-compliant investment products;
3. Development of human resources/talent pool – train takaful practitioners who could master both technical knowledge and shariah understanding; and
4. Harmonization of cross-border regulations – this is to accelerate the development of takaful beyond the shores of domestic markets to leverage on the growing demand of takaful products in both Muslim and non-Muslim countries.

In order to address the above issues, all stakeholders – regulators, player and standard setting bodies must give their full commitments.

Newsletter FEM : What is your opinion about the fast emergence of takaful and retakaful companies in Malaysia and around the world? How do you foresee the importance and growth of these industries in the near future?

DMM : As I mentioned earlier, Malaysia is well-known as a credible 'centre of excellence' for Islamic finance including takaful and Retakaful. This is a direct result of Government's tireless efforts through the establishment of regulatory infrastructure and the setting up of various learning and training institutions to develop human capital and nurture talents necessary for the development of the Islamic finance industry.

The recent approval of another four new family takaful licenses to local and foreign players further reflected the Government's commitment in deepening the domestic takaful market and increasing takaful penetration rate to the level of its conventional counterpart.

The future of the takaful industry in Malaysia and world-wide is bright but full of challenges. For the domestic takaful players, as the market is becoming crowded and highly competitive, the only way forward is to expand overseas. With the necessary knowledge and experience gained by operating in Malaysia, I am sure they will succeed.

Globally, the number of takaful and Retakaful operators is increasing by the day, indicating the increasing acceptability of the takaful business models. Here, the challenge in moving forward is much more difficult and requiring the cooperation and commitment of all stakeholders – takaful operators, regulators, training institutions and the standard setting bodies.

Thank you for your time Dato'.



SHARIAH GOVERNANCE FRAMEWORK: A SIGNAL FOR MANDATORY SHARIAH AUDIT IN THE IFIS

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The issuance of Shariah Governance Framework (SGF) by the Central Bank of Malaysia has enlightened the practice of Shariah Committee in delivering their responsibilities in the IFIs. This framework supersedes the Guidelines on the Governance of Shariah Committee for the Islamic Financial Institutions issued in 2004 by Central Bank of Malaysia. This is also due to the expectation of the key stakeholders of the IFI pertaining to the Shariah compliance process. The Shariah Governance Framework for the Islamic Financial Institutions is designed to meet the following objectives:

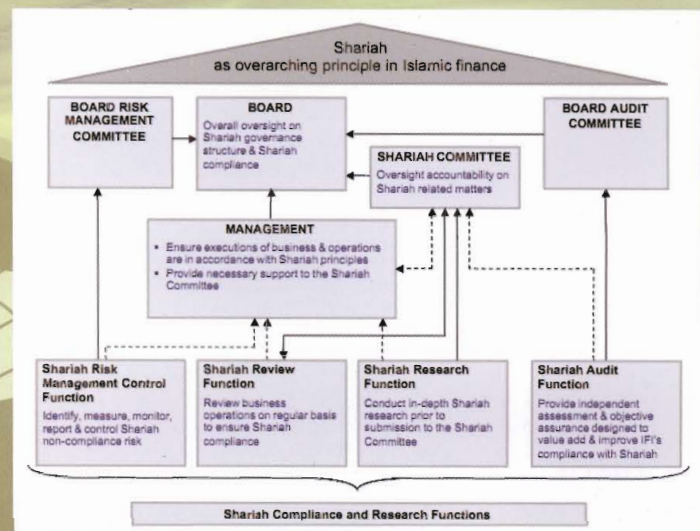
- (i) sets out the expectations of the Bank on an IFI's Shariah governance structures, processes and arrangements to ensure that all its operations and business activities are in accordance with Shariah;
- (ii) provides a comprehensive guidance to the board, Shariah Committee and management of the IFI in discharging its duties in matters relating to Shariah; and
- (iii) outlines the functions relating to Shariah review, Shariah audit, Shariah risk management and Shariah research.

The framework highlights that Shariah Audit refers to the periodical assessment conducted from time to time, to provide an independent assessment and objective assurance designed to add value and improve the degree of compliance in relation to the IFI's business operations, with the main objective of ensuring a sound and effective internal control system for Shariah compliance. The function of shariah audit should be performed by internal auditors, who have acquired adequate Shariah-related knowledge and training. In addition, the internal auditors may engage the expertise of the IFI's Shariah officers in performing the audit, as long as the objectivity of the audit is not compromised. Shariah audit in the IFI shall be conducted at least on an annual basis, verifying that the IFI's key functions and business operations comply with Shariah. Even though the Framework specify the responsibility of Shariah Audit in the hands of Internal Auditor of the IFI, it is considered as a stepping stone for the IFI to move forward in ensuring adherence to Shariah principles.

It is also mention in the SGF that the Board Audit Committee, together with the Shariah Committee shall determine the deliverables of the Shariah audit function. The deliverables

shall be consistent with accepted auditing standards. Refer to the Figure 1 below:

Figure 1: Shariah Governance Framework Model for Islamic Financial Institutions



Based on the figure above Shariah Audit Function reports directly to the Audit Committee of the IFI and at the same time tabled the outcome that related to shariah issues to the Shariah Committee of the IFI.

However, the outcome from the Shariah Audit Function that tabled to the Shariah Committee may involve independence issues since the Shariah Committee of the IFI is responsible in decisions, views and opinions related to Shariah matters. In addition, the board of the IFIs bears the ultimate responsibility and accountability on the overall governance of the IFI and the board is expected to rely on the Shariah Committee on all Shariah decisions, views and opinions relating to the business of the IFI. This trigger question on the line of communications and reporting as the Board is expected to rely on the Shariah Committee works. If the Board is expected to rely on the Shariah Committee works, the placement of Shariah Committee in the model shall be equivalent to the Audit Committee or higher since the Shariah Committee is also expected to perform an oversight

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IMPLEMENTATION OF FRS 139: CHALLENGES AND ISSUES

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WHAT IS FRS 139?

Financial Reporting Standard (FRS) is a set of accounting standards issued or adopted by Malaysian Accounting Standard Board (MASB) for application by all entities other than private entities. Compliance of FRS are legislated under Financial reporting Act 1997 (Section 26D).

FRS 139 is one of the standard relating to financial instruments. FRS 139 talks about recognition and measurement of financial instruments. Another two standards relevant to financial instruments are FRS 132 on presentation of financial instruments and FRS 7 on disclosures of financial instruments.

Financial instruments embrace a broad range of assets and liabilities. FRS 132 defines financial instruments as any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Example: Bankers Acceptance, Future Contracts, Convertible Bonds and Warrants.

FRS 139 categorizes the financial assets and financial liabilities as follows:

Category	
Financial Assets	Financial Liabilities
1. Fair value through profit or loss (FVTPL)	1. Fair Value through Profit or Loss
2. Loan and Receivable (LNR)	2. Other Financial Liabilities.
3. Held to Maturity (HTM)	
4. Available for Sale (AFS)	

Three categories of the above financial instruments that would be measured at fair value i.e. FVTPL (assets and liabilities) and AFS. While others would be measured at amortized cost using effective interest rate.

Fair value is defined as "the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants". The fair value of an asset is based on the exit price (i.e. selling price). The exit price is determined using data that market participants in the entity's principal or most advantageous market would use when determining the price of that asset or liability. (International Accounting Standards Board (IASB), 2006)

Any gain or loss arising from the difference between the entry (i.e. purchase price) and exit price at initial recognition

is recognized in profit or loss under FRS 139. The standard includes a three-level hierarchy for determining fair value.

HISTORY OF FRS 139 AT MALAYSIA

International Accounting Standard (IAS) 39 (revised 2000) was exposed in Malaysia way back in year 2002. Due to the ongoing revision of the IASB level, a revised Exposure Draft (ED) was re-exposed to reflect IAS 39 (revised in 2003) in December 2004. This ED was subsequently finalized and issued as FRS 139 in February 2006. The effective date was set to be applicable for financial period beginning on or after 1 October 2006.

In May 2006, MASB announced to defer the effective date. August, 2008 MASB confirmed that FRS 139 will take effect for financial period beginning on or after 1 January 2010. This means that the first quarterly financial reports in 2010 would require submission in April 2010

CHALLENGES OF IMPLEMENTATION

In November 2009, IASB issued a new standard on the classification and measurement of financial instruments known as International Financial Reporting Standards (IFRS) 9 which represented the completion of the first part of a three-part project to replace IAS 39. The related published Exposure Draft explain the replacement of fair value measurement guidance contained in the above IFRS with a single, unified definition of fair value, as well as further authoritative guidance on the application of fair value measurement in inactive market.

Generally, IFRS 9 is a simplification of IAS 39 and adopts a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the many different approaches in IAS 39. The new standard also requires companies to use a single impairment method rather than allowing the many methods in IAS 39. As a result, the IASB says IFRS 9 will improve comparability and make financial statements easier to understand for investors and other users.

The world has moved on because the IASB has permitted countries to adopt Phase 1 of IFRS 9 earlier than the mandatory date of January 2013. At the moment, Malaysia

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EVOLUTION OF WAQF ACCOUNTING TO ENHANCE ACCOUNTABILITY OF WAQF INSTITUTION

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INTRODUCTION TO WAQF

Waqf can be referred to a charitable endowment that comes from an Arabic term and has no equivalent word in English. The purpose of waqf is to provide 'recurring charity' that benefit income flow to the needy continuously. It is a private possession or asset in any form that has been put under injunction from any form of transaction including sale, inheritance, hibah (grant) and wasiyyah (will) whilst its physical source ('ain) remains intact and unchanged. From the Islamic point of view, endowment ownership is non-permanent because it has been entitled to Allah SWT to benefit all Muslims. It is a sincere gift in the form of private possession to the state or person of authority for the good of all Muslims as long as the wealth is used in compliance with Islamic requirements. Waqf property can contribute to the development of the sosio-economics of ummah like building, commercial projects such as business centres and social projects such as orphanage, caring centre and many others which it is not against the shari'ah or Islamic law.

As reported by Muslim from Abu Hurairah r.a. that Prophet (P.B.U.H.) said that "when a son of Adam dies, so does their deeds except for three things: alms giving or benefited knowledge or pious son who pray for them". The Holy Al-Quran in verse 2:261, Allah S.W.T. said: "The likeness of those who spend their wealth on Allah's way is as the likeness of a grain which growth seven branches in every branch contains of hundred seeds and remembers Allah will give increase manifold to which he will and Allah is All Embracing and All Knowing". The conception of reward to the waqf giver in getting blessing in this world or even in the Hereafter encourage them to inculcate the practice of waqf as per command in Islam. Therefore, to satisfy the giver of waqf assets, roles of mutawalli as the trustee of waqf asset is very important to discharge the accountability in administration and management of waqf institution.

EVOLUTION OF WAQF ACCOUNTING

During the Ottoman Empire, accounting in waqf institutions had been extensively practiced in managing awqaf institutions. Yayla (2007) discovered some evidence on the accounting practice in Sultan Suleyman Waqf of the Ottoman Empire. He scrutinized Ottoman's archives and found that the bookkeeping process had been carried out at that time.

Besides that, Yayla found evidence that accounting record was used to measure performance of waqf by the Sultan's commissioners. Although the preparation of recording is based on the consciousness and initiative of mutawalli, it is an appropriate way that could prevent the misuse of waqf asset.

Similarly, Toruman et. al. (2007) examined the accounting practice on waqf. They discovered the fact that from 1490 to 1928 accounting practice on waqf had been carried out using single entry in nature. However, the records showed all information pertaining to the cash waqf management and administration like annual income of properties, expenditures on daily, monthly and yearly basis as well as the increment of waqf assets of the year. Both studies have proven that accounting was used as a controlling device for waqf administration and management during the Ottoman Empire.

In Malaysia, looking at the current practice on accounting for waqf, the answer is inconsistent practice and varies report on waqf. Different waqf institution has its own accounting practice. Eventually, in Malaysia, this issue had been highlighted. Abdul Rahim et. al. (1999) investigated the accounting system used and administration practiced by State Islamic Religious Council (SIRC) in Malaysia. They found that there had lack of accounting system for waqf assets, no detailed information about the waqf assets and unsystematic management of the assets. In fact, there was no written procedure of recording financial transaction relating to waqf assets.

Siti Rokyah (2005) expanded the previous study by examining the financial reports to look at the level of waqf disclosure among the SIRC in Malaysia using primary and secondary methods. Sadly, even the study had carried out in 2004; the latest annual reports produced by SIRC were majority for the year 2000 and 2001 whereas the rest vary from 1994 to 1997. The status of producing annual report of SIRC varies as majority of them had overdue and outdated annual reports. It showed that SIRC had low level of disclosure in their annual report. Some of SIRC reported higher level of disclosure as they have qualified accounting staff. They produced the latest annual report compared to the SIRC which showed low level of waqf disclosure and outdated annual reports. Majority of SIRC did not provide separate

account for waqf. As a result, no information relating to waqf matters could be found.

ROLES OF FEDERAL GOVERNMENT

The Honorable Dato' Seri Abdullah Ahmad Badawi the Former of Prime Minister of Malaysia in the Ninth Malaysia Plannings, Pages: 39 – 40, cited that "In addition, steps will be taken to enhance the capital resources of bumiputra, like land and waqf assets under the management of the State Islamic Religious Councils (SIRC). These State Religious Councils should fulfill Fardhu Kifayah obligation and play an active role in the economic development of the muslim ummah and help in the development of human capital."

As a result, Ministry of Prime Minister Department established Department of Awqaf, Zakat and Hajj (Jabatan Waqaf, Zakat dan Haji or synonym as JAWHAR) was set up in 2004 with the objectives of improving the management of Muslim wealth in the forms of waqf, zakat, mal and hajj. However, it does not replace or take over the roles and functions of the State Islamic Council but merely complements the functions and roles of the body in order to further strengthen the institutions of waqf to benefit Muslims. The role at Federal level is very important to ensure the management and administration of waqf properties is in order, systematic and effective.

JAWHAR also aims to improve accountability of waqf institutions. Planning, coordination and implementation of policies and development programs of waqf institutions particularly the State Islamic Religious Council (SIRC) and effectively monitored for the progressive development of ummah. Yet, the important tool to achieve the objective of JAWHAR is reporting as a tool to measure the performance. Indeed, accounting for waqf also must be set up as guidelines and it must be enforced and monitored at Federal Level.

CONCLUSION

Waqf Accounting is a very significant tool that may improve transparency and accountability of waqf institutions in Malaysia. The absence of guidelines or standards on accounting for waqf triggers the relevance of waqf accounting so that accountability of waqf institutions could be assured. Thus, it is suggested that accounting is very useful means to discharge mutawalli's i.e. State Islamic Religious Council's (SIRC) accountability in waqf administration and management.

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role on Shariah matters related to the institution's business operations and activities. This is achieved through the Shariah review and the Shariah audit functions.

In addition, it is also argued that even though the Shariah Committee ensures compliance on the Shariah front-express their opinions on Shariah compliance, the thorough audit or review processes of the Shariah legal contracts, documentations and operations were rarely conducted properly (Rahman, 2009). Thus, with that, Central Bank of Malaysia shall encourage the Shariah Audit Function to be conducted by qualified external shariah auditors as to the stakeholder of the IFI are starve with information pertaining to shariah issues and shariah compliance. This will also increase transparency and assurance on the overall process of the IFI that Shariah Compliant, since at current the stakeholder can only satisfy their demand based on the Shariah Committee report that the overall operations of the IFI are shariah compliance. Hopefully, with the issuance of the SGF, it will create the awareness in the stakeholders as to the importance of Shariah Audit function in IFIs. Slowly, the regulators will fulfil the needs of having External Shariah Audit mandatory in the future.

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UTILIZING THE ISLAMIC PARTNERSHIP CONTRACTS IN FINANCING INSTRUMENTS: PROPOSITION ON THE APPROACHES

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Islamic Financial Institutions have been established to not only focus on maximizing profit but also to be in line with the Shariah as well, which is to help the public in avoiding riba and poverty. Nowadays, people are more aware to manage their savings and financing accordance with Islamic principles. This awareness encourages the Islamic banks to introduce many types of financial products that apply Islamic principles to fulfill their demands. Most of contracts that have been applied in Islamic banking and finance industry are *wadiah* (safe-keeping), *ijarah* (leasing), *mudharabah* (profit sharing partnership), and *musharakah* (profit and loss sharing partnership). However, *mudharabah* and *musharakah* in this context are not much emphasized compared to other types of contracts.

In Malaysia, short-term investments using the *murabahah* and *bai bithaman ajil* are often being implemented in the Islamic financial institutions rather than long-term investments using the *mudharabah* and *musharakah* contracts (Al-Harran 1996). Equity financing such as *musharakah* and *mudharabah* contracts contain elements of risk, effort and liability, hence surely it is clear that these contracts are more just and in line with the maqasid or objectives of *Shariah* (Asim, Ezry & Jhordy 2009). In order to find the proposition in increasing the implementation of *mudharabah* and *musharakah* contracts, academic views from experts in Islamic banking on this issue have been taken through depth interviews.

LITERATURE REVIEW

In Malaysia, there are fourteen contracts used by Islamic banks and Islamic banking to be applied in their products which are *wadiah yad dhamanah*, *mudharabah*, *qard*, *tawarruq*, *wakalah*, *ijarah*, *bai' dayn*, *istisna'*, *bai' bithaman ajil*, *murabahah*, *ar-rah*, *hiwalah*, *kafalah* and *ujr* (Malaysia International Islamic Financial Centre 2010).

Currently, seven available Islamic financing contracts can be used as alternatives to interest-based conventional contracts which are *mudharabah* (profit sharing partnership), *musharakah* (profit and loss sharing partnership), *ijarah* (lease financing), *murabahah* (trade financing), *qard al-hasan* (welfare loan), *bay' bi al-thaman al-ajil* (deferred payment financing), and *istisna'* (progressive payment) contracts. Among these financial products, *mudharabah*

and *musharakah* are the most distinct (Samad, Gardner & Cook 2005).

MUDHARABAH CONTRACT

Mudharabah means profit sharing contract between two agreed parties according to which one of the two parties provides the capital for the other to work, with the condition that the profit is to be shared between them according to the agreed ratio (al-Bashi 2001).

Mudharabah muqayyadah (restricted mudharabah) and *mudharabah mutlaqah* (unrestricted mudharabah) are types of *mudharabah*. *Mudharabah Muqayyadah* means *rab al-mal* (capital provider) may specify a particular business or a particular place for the *mudharib* (businessman), in which the money shall be invested in that particular business or place. *Mudharabah mutlaqah* means *rab al-mal* (capital provider) gives full freedom to *mudharib* (businessman) to undertake whatever business he deemed fit. However *mudharib* cannot, without the consent of *rab al-mal*, lends money to anyone.

According to Bacha (1996), potential serious agency problem has made *mudharabah* contract is not much implemented due to an incentive problem that may arise in the partnership. *Mudharabah* is an unfavorable financing proposition compared to debt financing approach from a financier's viewpoint.

MUSHARAKAH CONTRACT

Musharakah means profit and loss sharing between two agreed parties with both of parties will contribute capital and effort or either one contribution, on the condition that profit and loss is to be shared among them.

There are four types of *musharakah* which are *Shirkatul Inan*, *Shirkatul A'mal*, *Shirkatul Wujuh*, and *Shirkatul Mufawada*. *Shirkatul Inan* is when all the partners have equality in capital, management or liability might be equal in one case but not in all respects. Meaning either profit is equal but not labor or vice versa. *Shirkatul A'mal* is where all partners jointly undertake to render some services for their customers, and the fee charged from them is distributed among them

according to an agreed ratio. *Shirkatul Wujud* is when the partners have no investment at all and the purchase of commodities is conducted on deferred price while selling them to customers on spot. The profit earned is distributed between them at an agreed ratio. *Shirkatul Mufawada* is when all partners share capital, management, profit, and risk in absolute equals.

While high risk requires more commitment and effort from the banks to deal with it, bankers are lack in management skills, and most businesses do not want to relinquish management control of their businesses. These are among the constraints of *musharakah* to be used in Islamic Banking industry (Daud Bakar 2006).

Generally, the implementation of *mudharabah* and *musharakah* contracts can give benefits to Muslim as it clearly benefit people who need for funds to be used for productive activity. These are just some of the benefits that the global economy can experience if there is a full implementation of *mudharabah* and *musharakah* (Asim, Ezry & Jhordy 2009).

METHODOLOGY

In identifying and analyzing proposition on the approaches of *mudharabah* and *musharakah* contracts in the Malaysian Islamic banking and finance industry, the data collection is conducted through an interview method.

Academicians from Universiti Sains Islam Malaysia (USIM), with some of them involved directly in the industry were selected as respondents for interview sessions. This interview has been done base on the purposive sampling method, wherein this sampling targets a particular group of people. Five respondents have been selected and those respondents are chosen through their qualification, experience, understanding on the implementation or practices of *mudharabah* and *musharakah* contracts in Islamic Banking. However, only two respondents were selected in the article, based on their respond in identifying the proposition for the implementation of these two contracts.

PROPOSITIONS AND CHALLENGES

Based on the interviews that have been done, each of selected respondents has suggested propositions to encourage the utilization of the *musyarakah* and *mudharabah* contracts. The first respondent suggested that the implementation of *musyarakah* and *mudharabah* contracts can be increased by modifying the contracts:

"In the current circumstances (that are not the best solution) Mudharabah and Musharakah...although in theory concept, there are practical problem. It can be done but need some modification. If refer to the classical fiqh text book, it stated that rabbul mal (capital

provider) disallowed to involve in business. This need to be modified because to implement it, rabbul mal (capital provider) must involve in the business. Before this, the constraint in Mudharabah is they are disallowed to participate in the business but by modifying it, it will be more clear" (Respondent 1).

First respondent proposed that some modification in the contracts must be done to encourage their usage. The modified contract is suggested to allow the capital provider to be involved in the business activities. This approach is against the basis of *mudharabah* contract that does not encourage the capital provider to be involved or participated in the business. *Mudharabah* here is allowed '*ala khilaful khias*'. For example, the capital provider needs to know the profit after investing in the project, which against the *Mudharabah* concept which is unknown.

The second respondent has suggested two propositions in making *mudharabah* and *musharakah* to be much implemented, which are by creating a risk capital and make subsidiaries:

"Muhadarabah and musharakah system unable to stand alone without trustworthiness....there need trust. When there are trusts, mudharabah and musharakah can be done. But the trust can be assured by system...mean that the good monitoring system. But like I said it is difficult....Nowadays people can cheat....a person who suffer loss because he implement a wrong technique or way during investment or may be because of the management's mistake can said that the failure is because of the other factors and finally the one would be liable is the bank...because bank use the people's money (depositors), except it use the money based on the mudharabah and musharakah contract then invest in mudharabah and musharakah contract that does not matter compared if they take the money based on wadiah concept....the fact is, the bank is bank that is why there are suggestion to overcome the risk, Bank Islam should cooperate to gather the capital....create a risk capital or capital for mudharabah and musharakah...because the bank is incapable to liable a company...then mudharabah and musharakah capital like I said just now, need a trust...then, need a monitoring system" (Respondent 2).

"Musyarakah and mudharabah contracts can be used in financing but the banks need to create subsidiaries to take care of this implementation" (Respondent 2).

Based on the respond, the Respondent 2 have pointed out two propositions to make *mudharabah* and *musharakah* contract to be used in practices. Compared to Respondent 1, proposition by Respondent 2 is directed to create a risk capital and make subsidiaries. The risk capital or we called capital for *musharakah* and *mudharabah*, is the capital

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APPLICATION OF FINANCING FOR CUSTOMER BASED ON MUDHARABAH AND MUSHARAKAH CONTRACTS IN BANK ISLAM MALAYSIA BERHAD AND MAYBANK ISLAMIC

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INTRODUCTION

Transaction in the business can be combined with moral objectives of society based on the Islamic principles. Since the establishment of Bank Islam Malaysia Berhad in July 1983, Islamic banking began to develop in Malaysia. Most scholars agreed that Islamic banks share the main principle of *Mudharabah* and *Musharakah* contracts. Therefore, *Mudharabah* and *Musharakah* financing must be placed at the forefront and dominate non-profit lost sharing financing. Profit loss sharing (PLS) financing is not only the essence of Islamic financing but also a more appropriate mode of financing to catalyze the real sector, stabilize the financial system and curb inflation, since it can improve direct interaction and risk sharing between investors and entrepreneurs. Moreover, currently, the main challenge of Islamic banks pertaining to financing sector is the domination of non-PLS financing utilized, rather than PLS financing. Thus will encouraging the public to perceive Islamic banking as almost identical to conventional banking. This paper will compare the contracts that are used in financing instruments, by two Islamic banks in Malaysia, which are the Bank Islam Malaysia Berhad and Maybank Islamic Berhad.

LITERATURE REVIEW

The data from the two Islamic Banks in Malaysia and Bahrain stated the level of usage for *Mudharabah* financing by these two Islamic banks is only 5% and for *Musharakah* contract is less than 3% (Abdus Samad, Norman D. Gardner, and Bradley J. Cook, 2005). This study also identifies that contracts of *Mudharabah*, *Musharakah*, and *Qard al-Hassan* are the least important applied in financial instruments. The survey was carried out for year 1984-1997, 20 percent of the respondents indicate that they do not feel comfortable with the idea of sharing management and 8 percent support the hypothesis that the monitoring cost of the *Mudharabah* and *Musharakah* is very high and risky for the bank. This survey also showed that *Mudharabah* and *Musharakah* contracts are less popular because recently, they have alternative modes for financing that is more profitable and less risky than these two contracts (Samad A. & Hassan M.K, 1997).

The most important point is the customer awareness about the contracts that are used by the banks in their products. Customers largely rely on the acts of the financial services' providers that offer services. This claim is based on the previous study that found only 3 percent of customer can explain correctly the meaning of *Ijarah*, *Mudharabah* and *Musharakah* contracts. Nowadays, foreign banks and local banks were organized to amend their products to be more similar to the Islamic bank product by using this approach, they can be a rival to the existing Islamic banks in the industry (Kamal Naser and Luiz Moutinho, 1997).

METHODS

For the purpose of comparing the contracts that are used by two selected banks, data was taken from the secondary data on annual basis for 2 years continuously from 2008 to 2009. The data were obtained from the selected financial statement and information disclosed through the companies' website of two Islamic Banks in Malaysia, which are Bank Islam Malaysia Berhad (the earliest full-fledge Islamic bank) and Maybank Islamic (recently, developed as full-fledged Islamic banks, under the realm of Maybank Group).

ANALYSIS AND DISCUSSION

Table 1: Application of financing for customer based on Musyarakah and Mudharabah contracts

CONTRACT/BANK	MAYBANK ISLAMIC		BANK ISLAM (BIMB)	
	2008	2009	2008	2009
MUSYARAKAH	-	-	-	-
MUDHARABAH	30,986	25,712	9,249	8,934
ISTISNA'	-	-	509,988	543,016
MURABAHAH	6,383,899	5,914,894	1,848,075	1,680,071
MUSYARAKAH MUTANAQISAH	78,505	325,692	-	-
BAI BITHAMAN AJIL	8,106,048	9,373,223	5,526,409	5,719,619
IJARAH	-	-	243,063	289,200
IJARAH MUNTAHIA BITTAMLIK	-	-	30,334	28,367
IJARAH THUMMA AL BAI	7,202,573	10,581,933	-	-
BAI AL -DYAN	6,696	28,507	-	-
QARD HASSAN	-	-	-	-
INNAH	-	-	708,527	2,274,418
BAI INAH CASH NOTE	-	-	1,583,186	1,611,717
TAWARRUQ	-	-	-	167,378
OTHERS	4,894	50,768	-	-
TOTAL	21,781,579	26,300,729	10,458,831	10,711,003

The table 1 shows that Maybank Islamic adopted *Mudharabah* contract in their financing instruments at the amount of RM 30,986,000 compared to other contracts. Maybank Islamic used more on *Bai Bithaman Ajil* that reached RM 8,106,048,000 in financing for customer. In 2009, the usage of financing based on *Mudharabah* contract has declined to RM 25,712,000 compared to RM 30,986,000 in 2008. In spite of the total of *Mudharabah*-based financing in Maybank Islamic is much higher than in the Bank Islam due to its large capital, the Bank Islam has a small number of financing using *Mudharabah* contract compared to other contracts. *Bai Bithaman Ajil* contract dominates financing in Islamic Bank, with the financing at RM 5,526,409,000 for the bank. This trend is similar to Maybank Islamic, wherein the usage of *Mudharabah* contract in financing for customer is reduced to RM 8,934,000 in 2009. In 2009, the contract that dominating the financing for customer in Bank Islam is *Bai Bithaman Ajil* at the amount of RM 5,719,619,000.

As the whole, the data indicates that both of Maybank Islamic and Bank Islam have a smaller amount of financing using the partnership contract. For Maybank Islamic, they used other contracts such as *Bai Bithaman Ajil*, *Ijarah Thumma al Bai* and *Murabahah*. Meanwhile, Bank Islam has a great number in using contracts such as *Bai Bithaman Ajil*, *Inah* and *Murabahah*.

As the whole, both banks are not utilizing *Musyarakah* contract in their financing products within the period of 2008 and 2009. For this reason, there is a need for other innovative Islamic financial products based on other type of contracts such as partnership and leasing (*Musharakah Mutanaqisah*) as alternatives to the sale contract.

Musyarakah Mutanaqisah is introduced to inculcate the element of sharing terms of capital and liability between financier and the customer. In implementing *Musharakah* and *Mutanaqisah* contract, it is permissible for contracting parties to combine the two contracts of *Musharakah* and *Ijarah* in one document of agreement, as long as both contracts are concluded separately and clearly not mixed between each other. Besides that, they have to impose a pledge on the shares owned by the customer because the right of beneficial ownership is recognized by Shariah. The banks would enjoy an increase in a certain amount of time to increase our customers' business profits when Maybank Islamic and Bank Islam in Malaysia utilized financing for customer based on *Mudharabah* contract. Besides that, the bank is not obliged to pay a certain amount of financing to customers on regular basis, but adjusted earnings / revenue of banks, so bank would not

have a negative spread. Last but not least, the banks would be more selective and careful efforts that are really looking for Halal, secure and investments. This is because the profit would be divided among all parties. None of implementation of financing with *Musharakah* at Maybank Islamic and Bank Islam means that Islamic banking as a one of fund provider, which not yet attracted to apply *Musharakah* financing.

IMPLICATION AND CHALLENGES

From the analysis that have been done, it shown that these two Islamic banks are less interested in utilizing *Mudharabah* and *Musharakah* contracts in their financial products especially for financing. In order to avoid higher risks, Islamic bank possibly to minimize the offering financing for customer. It would be more difficult in monitoring, structuring and dealing with *Mudharabah* and *Musharakah* financing because Islamic banks still do not have enough management tools in order to manage, analyze higher risk as well measure the investment risk adhering to Islamic principles. The main factor why Islamic banks less in usage of the *Mudharabah* contract in financing for customer, is because the bank cannot gain more profit and not enough fund from customer. The internal and external problems in Islamic bank also are other factors why *Mudharabah* and *Musharakah* less utilized in financing compared to deposit. There is importance for all the involved parties to find the best approaches that can encourage the utilization of the *Mudharabah* and *Musharakah* contracts by the Islamic financial institutions.

CONCLUSION

The implementation of *Mudharabah* and *Musharakah* in financing is still low compared with other principles such as *Murabahah* financing, due to some factors. These include the difficulty in getting customers who are honest and having good character, generating of high integration, reducing high risk that will be borne by the bank, having technology of financing for the result. As a result, some of society's members perceive Islamic banking products are similar to conventional banks due to the lack of moral standards in financing. Thus, to attract more people in the banking services in the positive ways, Islamic banks have to promote more effective and quality products following the Islamic principles. Furthermore, government should give support to Islamic banking institutions to fully utilize the *Mudharabah* and *Musharakah* contracts in their financing services.



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gathered from musharakah and *mudharabah* contracts that will be invested in musharakah and mudharabah projects. In using the risk capital, people must be honest, be assured by good monitoring system, and being valued by their creditworthiness. However, there will be problem to value the company's partner because it needs to value the trust, the payment, and also ethics. Bank has been seen as a suitable party to act as a trading company compared to a profit sharing company in order to avoid high risk. If banks want to involve in profit sharing company, they are proposed to develop a subsidiary for this matter.

CONCLUSION

Mudharabah and *musharakah* contracts can contribute to the economy if both of these contracts are fully understand and well implemented by the industry. It can contribute many job opportunities as well as can decrease the amount of unemployment in this country. From the opinion of respondents, we can conclude that both of these contracts can be implemented. There is a need for further research to study the strength, weaknesses and possibility of success of the suggestions.

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has not decided whether to adopt the first phase of IFRS 9. It is interesting to see how the regulators in Malaysia will address this challenge, knowing full well that FRS 139 had only come into force on January 1st last year, with the added problems faced by some companies struggling to ensure compliance with FRS 139 and yet acknowledging that this may be the beginning of the end of FRS 139. Is that means that the companies in Malaysia are now applying a recently effective standard which would become obsolete in a very near future? (Dr Nordin Zain, 2010)

IMPLICATIONS TOWARDS ISLAMIC FINANCIAL TRANSACTIONS

Asian-Oceanian Standard-Setters Group (AOSSG) Working Group on Financial Reporting Issues relating to Islamic Finance have list out a few points of their concerns towards the implementation of FRS 139:

1. Some financial assets may fail to be classified accordingly to the classification listed in FRS 139.
2. Measurement at fair value may require the use of discount rates, which may not be allowed in some jurisdictions.
3. Measurement using the effective interest method can gives rises to interest income or expense which is seen by some as being odds with the legal form of Islamic Financial Transactions.

CONCLUSIONS

The importance of fair value measurement is that the historical cost accounting method is less relevant especially given that prices and values of assets and liabilities change frequently and in certain cases, fluctuate significantly. (Tuam, KC and Ng, KK, 2010). However, with the challenges faces and Islamic issues in implementing FRS 139 in Malaysia, is it suitable for the companies in Malaysia to adopt FRS 139 now?

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FEM'S BIG EVENT

BENGKEL HALATUJU & PERANCANGAN FAKULTI + FAMILY DAY (30 DECEMBER 2010-1 JANUARY 2011)

Both of these programs were held at Cherating Beach Resort, Pahang. In the workshop, staff discussed the faculty's future planning and factors towards achieving the objectives. After the 2 days workshop, the staff & family gathering together in a few activities such as telematch and dinner to strengthen families relationship.



XPLORE USIM 2011/FEMs OPEN DAY (4-6 March 2011)

The objective of this event is to attract public interest towards FEM and USIM. In this event a lot of activities were organized to create students' awareness towards becoming excellence in terms of academic and also positive value.



SME-UNIVERSITY INTERNSHIP PROGRAMME

The program for the first time was held in USIM, is a collaboration between two ministries, namely Ministry of International Trade and Industry (MITI) and Ministry of Higher Education (KPT). In this program, the students involved, offering advisory and consultancy services to SME companies, in order to improve business performance and develop these companies.

