

Analysis of Minor Proposals outside the Mainstream Islamic Finance in Pakistan

By

Salman Ahmed Shaikh

Abstract

This paper is a humble attempt to discuss the minor proposals which are outside the mainstream Islamic finance in Pakistan. Some of the minor proposals like two-tier Mudarabah are not used widely because of lack of preparation, government incentives and initiatives at the practical level in the current scenario. Some other proposals like rationalizing bank interest through non-textual arguments (other than in Qur'an and Hadith) are not in compliance with Islamic source texts (Qur'an and Hadith). Furthermore, some minor proposals have misapplied the Islamic contracts, such as Qard-e-Hasan as in Time Multiple Counter Loan. There are several features in conventional banking and finance which contradict with Islamic injunctions directly without any ambiguity. Islamic banking first and foremost attempts to be interest-free as well as avoid other non-permissible elements in Islamic contract law and rules of sale. In the presence of practiced Islamic banking and its growing penetration, accessibility and growth, Islamic banking should be preferred over conventional banking and finance products if one wants to be compliant with Islamic injunctions. Islamic banking alone might not be the only solution to meet all sorts of economic and social objectives. The simultaneous growth of Islamic social finance in the form of Waqf and institutionalization of Zakat and Qard-e-Hasan based microfinance can contribute in completing the access to Islamic finance to people of different economic standings. Now, people of all socio-economic sections can be served through either commercial Islamic banking and/or through Islamic social finance institutions. Thus, Islamic finance itself as a combination of commercial and social finance institutions is fast appearing to be a comprehensive and complete alternate financial system for the faith conscious clients. As a result, there is no need to rationalize conventional interest based banking in part or in total.

Medical Takaful (Insurance) Reform Models and Structures

By

Mohd Ma'Sum Billah, PhD

Abstract

Living with healthy life is among the prime natural concern of everyone regardless of one's status or background. A proper health-care requires money and today, it is one of the most expensive components of expenditure, which is not affordable to everyone thus, medical takaful¹ (insurance) may be a solution. In view of creating a healthy society, several developing countries make the medical insurance compulsory. In the Kingdom of Saudi Arabia on the other hand, the health insurance has not been made mandatory yet on everyone living in the Kingdom, the native or the expatriate. The law of the Kingdom in general, is a Shari'ah (Islamic law) while its recognized insurance model is based on the cooperative (ta'awuni) principles². In creating a healthier society by encouraging everyone to care about health, the medical takaful may be an effective step to be taken in to consideration thus, its reform is an emergence factor by allowing choices in package within the supreme law of the Kingdom. An attempt is thus made in this paper to analyze possible reformed models and structures of medical insurance appropriate for the Kingdom's environment. In establishing the idea, some experiences will be analyzed as a reference from the existing practices of the Kingdom of Saudi Arabia and also the Malaysian practices of medical takaful as the pioneer of the scheme.

¹ Takaful is a *Shari'ah* alternative to Insurance. Some countries it (Takaful) terms as Islamic Insurance.

² Al-Qur'an (5:2).

Combination of Contracts in Sovereign Sukuk Structure in Indonesia And A Proposed Shari'ah Parameters

By

Muhammad Iman Sastra Mihajat

Abstract

Sukuk is one of the most attractive Islamic instruments currently in Indonesian Islamic capital market. This instrument brings about the inevitable combinations of contracts in one single transaction to serve variety of demands of the Islamic investors. The fact shows that majority of contracts in Sukuk market (corporate and sovereign) are using double and multiple of contracts in their 'aqad structure. However, based on hadith of the Prophet, it is prohibited to combine more than one contract in single transaction. Therefore, some Muslim scholars have questioned the level of compliance with Shari'ah law in Sukuk issuance. This paper provides proper understanding over the prohibited combination of contracts in Shari'ah. It can be concluded that not all combinations of contracts are prohibited as long as they follow the Shari'ah parameters guidelines. The paper laid down Shari'ah parameters to combine more than one contract in one single transaction, so as it is beneficial for Sukuk issuer (corporate and government) for future development before issuing the Sukuk.

Working Model of an Islamic Bank: How different it is from conventional banking

By
Muhammad Ali Shaikh

Abstract

Islamic Banking being new, there are doubts about its legitimacy. This qualitative study presents a working model of an Islamic bank (IB) and attempts to identify key differences with conventional banks (CBs) that must be maintained along with an interpretation and explanation of the apparent similarities that exist in order to remove confusion.

IBs raise deposits through a Modaraba contract and share, with the depositors, actual profits of the asset portfolio created out of deposits instead of paying interest. The assets so created are either Fixed Income (FI) using trade based or leasing modes or Profit and Loss sharing (PLS) using Modaraba and Musharaka. The basis of intermediation and relationship between parties assigns a new role to IBs as traders, investors or fund managers etc. Instead of credit risk the IB's financing risk is a mixture of investment and credit risk with some different dimensions such as risk of lower return in case of delayed payments.

The study concludes that the IB model is legitimately a workable model and is distinctly different from conventional model. But there are issues in maintaining the different character of IBs such as partial similarity in product packaging, portfolio structures mostly based on FI income products, financial reporting, legal framework etc. Resolving these issues will improve confidence of the stake holders.

Understanding Islamic Banking: The Perception and Thoughtfulness of Customers about Islamic Banking in the Context of Balochistan

By
Jameel Ahmed
Safia Bano, Lubaina Dawood

Abstract

Islamic banking systems have been established and getting popularity not only in Muslim majority countries (Bahrain, Malaysia and Pakistan) but also in non-Muslim countries such as UK, France, China, Singapore (Ariff, 2014; Shahzad et al, 2014). The growth of the Islamic banking system is highly influenced by different factors such as level of customer awareness, acceptance patterns, religious perception, and/or preferences and economic system (Salehi and Khaksarastaneh, 2015). The aim of present research is to explore the level of understanding among customers of Islamic banking in Quetta-capital city of Balochistan. As the inclination of Islamic banking throughout the world is increasing day by day, but the growing trend of Islamic banking does not signify that people do have complete information and understanding of the basic principles of Islamic banking. Present inquiry is informed by qualitative research approach and nature of study is inductive. Qualitative interpretive tradition allows the study to construct the knowledge by including the voice of subjects of this study. In this regard semi-structured interviews were conducted from a sample of twelve account holders of Islamic banks (operating in Quetta), containing the questions relevant to the basic concepts and the functions of the Islamic banks. The results indicate that citizens are interested to be a part of Islamic banking due to religious factor, personal interest, personality influence, reference groups, contribution to social welfare, faith in its name "Islamic banking" and trust in "Shariah board" (governing its functions) but these factors do not indicate the understanding of customers regarding basic principles of Islamic banking.

Risk Management & Performance of Islamic Banks: Using Income of Mudharabah & Musharakah as Moderator

By

Vatimetou Mokhtar Maouloud
Ghazi Zouari
Anwar Hasan Abdullah Othman

Abstract:

Risk management in banks is a crucial issue, especially in Islamic banks. This study seeks to examine the impact of the incomes of Mudharabah and Musharakah on the relationship between risk and performance, which is measured by ROAA. This study employs unbalanced panel data regression analysis of Ordinary Least Squares method, from 16 Islamic banks from different countries over the period 2012 to 2015, which was processed by the software Stata-13. The results show that the income of PLS products (Mudharabah and Musharakah) has a moderating effect particularly on the relationships between performance and liquidity risk, and operational risk. However, it has no moderating effect on the relationship between performance and market risk. This study helps to enrich the literature with new models that can help bankers and Islamic finance students to get ideas and make relevant decisions in terms of investment.

Profitability of Islamic Banks: Case of Malaysia

By

Huma Nawaz
Prof. Dr. Barjoyai Bardai

Abstract

This study aims to investigate the performance efficiency and the differences between premier Bank Islam Malaysia Berhad and RHB Islamic Bank Berhad in Malaysia. The study uses the period of the year 2010 to until the year 2015. For data analysis, this research used linear Regression Model and Correlation. EPS and CAR were used as the dependent variables while Revenue, Total assets and total equity were used as the independent variables. The study identified that earning per share is significant factor that influence profitability of Bank Islam Malaysia Berhad. Based on Correlation analysis between independent variables and earning per share, shareholders equity of Bank Islam Malaysia Berhad has a significant relationship. The correlation test between independent variables of RHB Islamic Bank Berhad shows that equity and operating profit have positive correlation at 0.01 level of significant.