

Murabahah Parameter gets thumbs-up

Written by Lim Siew May

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KUALA LUMPUR: The Syariah Parameter Reference 1 (SPR1) or Murabahah Parameter, which was recently issued to all Islamic financial institutions under the purview of Bank Negara Malaysia, has generated positive feedback.

First in a series of Syariah Parameters issued, the SPR1 is a reference document to numerous parties, which include Islamic financial institutions, syariah advisers, academia, researchers, students and consumers.

Essentially, the SPR1 highlights the main syariah requirements in contracts, while offering examples, methods and models for application of the contracts. The SPR1 is also created to harmonise the interpretation and application of syariah views, especially among syariah committee members.

Mahadzir Ahmad, Islamic finance senior consultant at HeiTech i-Solutions Sdn Bhd, believes that it will have a positive impact on the Islamic banking industry.

He commended the details of the parameter, in which there are 22 illustrations to explain how the murabahah to the purchase orderer (the consumer) transaction should be practised. "The importance of the parameter lies in the fact that Malaysia has an Islamic Banking Act, but no Islamic Contract Act," he pointed out. "This is a major hindrance for the Islamic finance industry, because it uses syariah contracts for all financing and deposit products," said Mahadzir, who added that the Murabahah Parameter practically governs the rights and obligations of the Islamic bank, the supplier, as well as the consumer. "These substantive laws were not available previously," he noted.

While agreeing that this is a step in the right direction, Jamil Hassan, principal consultant for Islamic banking at Oracle Financial Services reckoned that considering the first Islamic bank was set up 26 years ago, this document is long overdue. Going forward, Jamil foresees banks to offer more variations on murabahah-based products. "This document essentially indicates what the permissible parameters on murabahah-based products are, and, given this clarity, bankers are more confident of crafting more innovative murabahah-based products to the public," he said, while adding that system development vendors are likely to scrutinise the content of the document by incorporating most of the salient features into their next release of base solutions.

Syariah auditing will also benefit from the issuance of this document, he pointed out. "Given the clarification, syariah auditing checklists in most banks will be expanded to incorporate new requirements as laid out by this document." Overall, positive benefits can be seen across key

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stakeholders in the Islamic finance industry, in which end users will be the main beneficiary, said Jamil. "End-users are likely to see an increased number of murabahah-based products offered to them, and some of these are highly innovative that will attract their attention," he said. "Banks will price their products competitively in order to attract these customers and customers can choose products that really meet their requirements in term of features and/or pricing."

Meanwhile, Mahadzir reckoned that the Murabahah Parameter ensures that consumers' rights and obligations are not neglected by the Islamic banks when they trade. Citing some examples, he explained that under the "Features of Murabahah Contract" section, the parameter provided in para 36 states: "Any discount on cost of acquisition obtained upon purchase by Islamic financial institutions (IFI) shall be reflected as a reduction in the acquisition cost." Meanwhile, para 60 indicates: "The liability for loss or damage of asset acquired for the purchase orderer while in the possession of IFI shall be borne by the IFI."

"This protection is unique to the consumer of Islamic financing products, and not available to the conventional banking," he said. "Conventional banks lend money to their consumer but they prefer not to be involved in the actual business of acquiring the asset because of the time and resources required, and also, due to the risks inherent when being involved in the trade," said Mahadzir, who pointed out that unlike conventional banks, the syariah (laws) insist that Islamic banks must undertake trade.

Other Syariah Parameters that are under development include ijarah, mudarabah, musyarakah, istisna' and wadiah.