

# THE CONCEPT OF FUTURE ISLAMIC AUTOMOBILE FINANCING BASED ON MAQASID SHARIAH

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## KEYWORDS

Maqasid Syariah  
Islamic Hire Purchase  
Automobile Islamic Financing

## Abstract

The awareness of Islamic Financing in automobile is new. There is link between awareness, banking method and information medium. This motivational to lease or to finance is the main decision to buy a car. The contract of al-ijarah is the suitable contract to tap the needs of client as alternative to a conventional financing to achieve the maqasid syariah that will reduce risk in financing facility. As the world and technology changing the new concept combining Islamic contract and technology must be based on Maqasid syariah as the peer to peer lending and crowdfunding need a view from Islamic perspective. The new finance technology and apps that can be a big potential to develop new future Islamic automobile financing. This is exploratory research that explore the big potential finance technology and Islam to tap the needs of customer in automobile ecosystem in Malaysia

## 1.0 INTRODUCTION

The objective of this paper to explore the concept Islamic finance in new technology based on Maqasid Syariah. There is 3 issues in developing the new concept of Islamic financing in automobile industries. Firstly, Islamic automobile financing product awareness. Secondly there is conflict between conventional financing and Islamic Hire purchase financing product and new technology and maqasid syariah perspectives.

## 2.0 ISLAMIC AUTOMOBILE FINANCING PRODUCT AWARENESS

According to Amin, H. (2007) customers of Islamic banking products especially in Islamic vehicle financing products have not been fully explored. This has been found by (Hamid and Nordin , 2001; Metawa and Almossawi ,1998; Gerrard and Cunningham,1997; and Haron et al.,1994). He said there was a need to explore Islamic car financing in Borneo. The research model covers three aspects namely Islamic awareness and use of banking products , choice of banking method and information medium. The results show that there is a good awareness of the product either BBA or AITAB. That is, 79.3 per cent and 74.5 per cent of respondents know about BBA and AITAB financing products . From perspective approach, as much as 70.31% chose to come over the counter to

process the financing documents. From the bottom line, most customers get information from television. Therefore, bank managers need to understand their product marketing programs according to their gender and education differences.

## 3.0 CONFLICT BETWEEN CONVENTIONAL CONCEPTS AND ISLAMIC HIRE PURCHASE AUTOMOBILE FINANCING PRODUCT

However Islamic automobile basically its replicating the conventional framework in the area of consumer behaviours. According to Trocchia, P. J., & Beatty, S. E. (2003) the most basic things are consumer behavior as perceptions ( Fierstein , 1986; Rosenbaum, 1972) and (Belk, 1988). Individuals often associate themselves with the things they have. But there are other points of view (Berry and Maricle , 1973; Durgee and O'Connor, 1995) that question why consumers are increasingly choosing to use items without owning them . Where they can use items that are usually rented and leased by users including apartments and cars. In fact, in 1983 there were 3,000 independent stores in the United States and by 1997 it had grown to over 8,000 . However it is still limited to the model of decisions related to economic costs and the interest of financing the lease . Therefore, there are four main motives related to automotive rental financing versus purchasing decisions. Firstly, is a desire to diversify the needs and

secondly to get easy maintenance. Then thirdly is satisfaction and lastly is upgrading in terms of the choice of slab model keeping the monthly payments low. The motivational discussion of the concept of use without ownership is supported by decision factors such as car depreciation, interest rates, cash flow estimates, capital costs and tax rates. Even shorter rental agreements are a motivating factor. It allows manufacturers and retailers to better understand why a large percentage of the market chooses to rent rather than buy. Ads of rental autos and promotion of interest as a way to obtain vehicles for those shortcomings money than borrowing money. With aggressive promotion, information will come as expectations of behavior owned the car as satisfaction, a person can use the car comfortable, stylish and fun to drive it. However, the concept of hire purchase in Islam differs from conventional. According to (Journal of Ijarah). Rent in Arabic is known as *Ijārah* resembling 'lease' or 'rent purchase' in the conventional banking system. It promises the profit legally while avoiding usury (*riba*) in Shariah-compliant financial transactions. The objectives of transaction are known as Maqasid Shariah. For the Islamic rental concept it must comply to the requirements of the three categories (*darūri*), needs (*ḥājī*) and luxury (*taḥsīnī*). While Imam Al-Ghazali categorizes his objectives into two main categories; religious objectives (*dīnī*) and worldly goals (*dunyawī*). In general, Maqasid is classified as basic or the basic needs are divided into five types. That is to protect religion, soul, intellect, lineage and property. As already mentioned, the contract and the conditions specific to the contract may have separate objectives, but do not be against the general objectives of Shariah. In the contract of *Ijarah*, the benefits and the duration of the contract period had to be determined precisely. This shows that the main objective of the contract *jarah* is access to the benefits of the asset even if do not have it. Client will enjoys the use of assets within the expected time frame. Thus in the contract of *Ijārah* fulfills the objective of the distribution of wealth in the market economy as set forth in the Quran (al-Hashr, 59: 7). With the concept of Shariah Maqasid in *ijarah*. Then it can manage risk better. That is the risk of uncertainty (*gharar*), usury (*riban*) and ignorance (*jahalah*). However, there are challenges in implementing these instruments. Based on *history* the financing model in *Ijarah* Thummal Bay' (a lease contract that expires with the sale), known as AITAB and *Ijara muntahiyah bi al-Tamlik* (lease ending in ownership). The difference between the two is that in the former case the title of the asset is transferred to the taxpayer at the end of the contract by the sale agreement, whereas in the latter, the transfer is made by gift or gradual transfer throughout the lease contract. But the Islamic hire

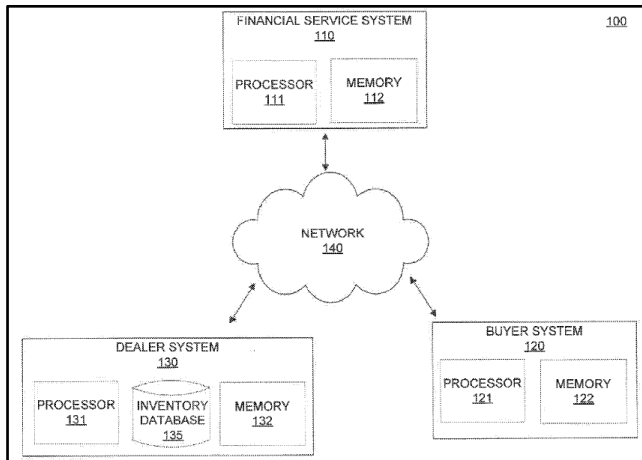
purchase contract in Malaysia is under the jurisdiction of several government organs such as the Ministry of Domestic Trade and Consumerism which exclusively has control over higher purchasing efforts, and the Ministry of Transport which administers the levy of vehicles and road tax. Lack of governance is a major problem for AITAB. Then, there is no syariah legal framework as it is under the Hire Purchase Act 1967. On the issue of ownership, the bank as the owner of the assets in the AITAB instrument should take the risks, liabilities and responsibilities of the asset. However, in practice, banks try to avoid all kinds of liability even if they claim to be the owner of the asset. For example, according to the principle of *ijarah*, the giver rent should bear the costs associated with these assets as the cost of insurance. But current practice in Malaysia shows that renters are responsible for the cost of car insurance. This measure is legally supported by Section 26 (1) of Hire Purchase Act 1967 which clearly states that the vehicle owner (bank) is liable to bear the cost of insurance for the first year under the name of the lessee and Section 26 (2) of the same enactment explaining the responsibility the taxpayer to bear the cost of insurance for the next two years and the following years and this is violation of the Maqasid Shariah. Therefore, the Malaysian Government must take proactive steps to address the legal barriers towards implementation of AITAB. This can be done whether there is a draft of Mu'amalah Law as a framework law or by adding some amendments to the Hire Purchase Act 1967. This means that the Syariah court should be given greater jurisdiction. Similarly, the Bank should adopt the risk-sharing method of providing AITAB financial services to its customers. Therefore, they will have to bear the cost of maintenance due to the leased asset

#### 4.0 ISLAMIC FINANCE AND TECHNOLOGY DEVELOPMENT THROUGH MAQASID

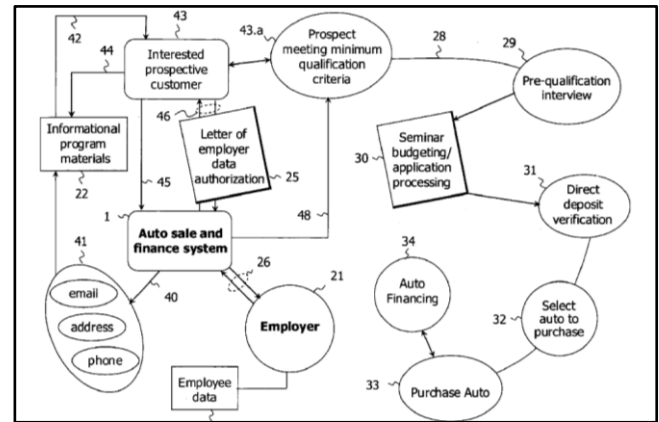
As an immediate solution, it is recommended that Islamic banks with a high level of awareness of Shariah maqasid be able to take advantage of financial technology. According to Ghazali, N. H., & Yasuoka, T. (2018) medium enterprises (SMEs) start to play an important role as a key driver for economic growth and competitiveness in job creation. Through alternative the instrument of financing like peer to peer (P2P) and capital Crowdfunding comes in many forms, but its specialty is in the form of public funds (*sadaqah*) and private equity (Private Equity). Studies on Finance Technology awareness have been conducted in Malaysia and many countries such as the United Kingdom (UK), Latvia, Finland and more. Saksonova and Kuzmina- Merlino (2017) report that consumers are unaware of FinTech's services in Latvia and related innovations as a

new financial products Inthe UK, Baeck et al. ( 2014 ) reported that levels of awareness of alternative finance in among consumers and SMEs in the UK, is very low. The results showed that the level of awareness, the fund is very limited especially in P2P lending, crowdfunding and other FinTech services pr ovided by non bank financial institutions. However, the interesting results of the study show the majority of respondents have a positive perception of FinTech development . Research suggested the approval of the Malaysian and with the right regulations it may accelerate the adoption of alternative financing instruments in Malaysia.

Therefore the ideas of technology that can be analysed together with the Ijarah instrument (AITAB) and the Maqasid Shariah is the idea and the patent presented by Forrester, K. D., Eberle, P. A., Dolle, N., Chiagouris, S. G., Hartzmark, J. R., Zhang, X., ... & Childs, K. S. (2015). The patent is the Auto-Controlled Automobile system application . Through this, financial funding approval can be accelerated by obtaining initial customer information through online platforms and websites only. With the complete information, the system will connect more directly with car dealers as well as the vehicle ecosystem. The system diagram is as below.



Similarly, the idea and patented by Klinkhammer, K. W. (2007). The system called as Sub-Prime Automobile Sale and Financial System. The system is to provide car financing to individuals with lower credit score and to provide an interest rate that matches the level of customer financial ability . It uses contracts and terms automatically that come with job performance data that measures the applicant's eligibility requirements compared to the applicant's credit score. The system diagram is as below.



Based on the above two patent applications of vehicle finance can be analyzed through the concept of Shariah Maqasid. According to Awang, M. D., & Asutay, M. (2017) *Maqasid al- Shariah* is one of the important methodology in islamic laws which provides the building the interpretivism in response to the challenges of the changing the social society in modern times. Thus, many contributors consider the role of *maqasid* as the process of solving contemporary problems encountered in everyday life. Since *maqasid* is defined as "human well-being", any activity undertaken, including financial, has to be in line with "human well-being", and this, by definition, also includes hirepurchase. Therefore , the AITAB contract is based on *maqasid* using the HPA provisions 1967 to protect the rights of customers. Under Islamic law , the spirit of protection must be applied to both parties to ensure justice for all. Testament Scripture actually to purchase the assets through a representative involved in two contracts,namely *al- Ijara* and *al- bai "*. The *al- Ijara* contract is for the protection of the rights of the owner ,in the case where the tenant fails to meet the installments, in which the owner have the right to take the assets that he still exists under the lease contract. at the same , the contract also protects the rights of the tenant when the agreement in the contract giving the option to purchase the asset at the end of the period of implementation based on mutual agreement to achieve justice and win-win situation. it should be noted that the current lease specified period , the customer is only considered as a tenant. But keep in mind that some scholars say that the provisions of the HPA in 1967 almost comply with the requirements of *Sharia*. Therefore, the facility AITAB not be prevented from adopting this rule and include it in the agreement. in fact, in terms of management , it allowed to refer to conventional hire purchase and current practices ("urf ") in certain places, so long as such practices are not in conflict with *Shariah* principles.

## 5.0 CONCLUSION

Based on previous writings, it can be concluded that the hire purchase through ijarah and AITAB contracts can be used in the concept of future vehicle financing via finance technology by replicating and modifying the western finance applications patents to Islamic hire purchase applications. That is, using the ijarah contract which is necessary to conform to the concept of the Maqasid Shariah. Therefore, the implementation of the AITAB contract must apply to the contract involved such as the lease contract and any other contract provided that they specify a specific period of time .

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