

Towards Effectiveness of Sukuk Murabahah at CIMB Bank in Malaysia

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Abstract

Sukuk is part of the Islamic capital market products. Sukuk has grown to become among the main methods of financing investments based on Islamic principles in this era. Demand for sukuk has grown rapidly in recent years because it is between the investment opportunities that offer low risk, fixed income and based on shariah principles. The most instruments of sukuk issued in Malaysia are sukuk Ijarah, sukuk Mudharabah, sukuk Istisna, and sukuk Musharakah. As it is just published in the market, the demand on these sukuk Murabahah is less applicable compared with other sukuk. Sukuk Murabahah is a sale and purchase agreement based on shariah perspective. Even so, many people still do not understand the concept and practices of sukuk Murabahah. The lack of understanding and concern in sukuk Murabahah made them at the lowest level of practices comparing to other types of sukuk. Therefore the main objective of this paper is to find out the reasons of not using sukuk Murabahah in Malaysia. An interview, through survey method using questionnaires, is employed for data collection and it is being administrated by hand to the Manager of CIMB, Kedah state. The result of the interview showed that the main reason for not using sukuk Murabahah is because lack of promotion.

Key Words: Sukuk, Sukuk Murabahah, Islamic Capital Market, Shariah.

Introduction

Sukuk is the name of a financial certificate and can be seen together with Islamic debt securities (Central Bank of Sri Lanka, 2012). However, fixed income, debt securities, the interest element or benefits is not allowed in Islam as an element of riba. Sukuk are securities that comply with shariah and Islamic investment principles that are independent from riba, gharar and gambling (Hussein., 2011). Sukuk has grown to be one method of financing investments based on shariah principles in this era of modernization. Request on the sukuk has been growing rapidly in recent years as it promotes opportunity because it became such investment opportunity that offers low risk, fixed income and Shariah principles (Mauro, 2013).

Rapidly growing global sukuk market industry experienced tremendous growth over the past five years and has now become the focus in the development of the Islamic financial system is rapid (BNM, 2007). The most instruments of sukuk issued in Malaysia are sukuk Ijarah, sukuk Mudharabah, sukuk Istisna, sukuk Musharakah and etc. Most sukuk have been long in the market except for sukuk Murabahah. Sukuk

Murabahah newly issued by Bank Negara Malaysia in April 2013 (BNM, 2014). Introduction of sukuk Murabahah will enable Islamic banks to obtain funds from the central bank by pledging high investment-grade sukuk as collateral, and will increase liquidity in the market.

Among the sukuk, sukuk Ijarah is the most demanding sukuk in the Islamic capital market compared with other sukuk. The percentage is growing until this day. If we look at the number of issuances, sukuk Ijarah contributed 43.6 % of total issues, followed by sukuk Musyarakah 27.5% and then sukuk Mudharabah 1.4 % (Hanefah, Noguchi, & Muda 2013). The demand for sukuk Murabahah is too minimal percent in the Islamic capital market, either in Malaysia or in the Islamic world (Islamic Financial Services Board, 2011).

Although Malaysia is lead the development and growth of sukuk in the global Islamic capital market, namely 63 % or USD100 billion of the total global sukuk in 2014, but the percentage of sukuk Murabahah in Malaysia remains small.

However, some publications in Malaysia try to raise the question whether the issuer and investors understand the true concept of Islamic bonds and sukuk Murabahah and Islamic investment opportunities that can be taken. Does the publication process strictly comply with shariah? Why it's less applicable? Therefore the objective of this paper is to find out the reasons of not using sukuk Murabahah in Malaysia especially in CIMB Alor Setar in Kedah state. The secondary data also gathered from past study for the fundamental concepts and practices of sukuk Murabahah in the Islamic capital market.

Literature Review

Sukuk market is one of market product which is growing rapidly in the Islamic capital market. Sukuk is equivalent to bonds which is the features is shariah compliance (CBS, 2012). However, in contrast to conventional bonds, sukuk give investors a low-risk investment and commensurate assets (Noor & Shahimi 2013).

Sukuk, which was initially considered to be a capital market instrument that niche of corporate issuers, state-owned enterprises and financial institutions in Islamic economics for the purpose of acquisition of the capital, has now attracted the attention of the big banks and corporate issuers internationally. International financial centers also play a more active role in developing the market for this asset class, including the formulation of the necessary legal provisions that have contributed in boosting the development of the global sukuk market (BNM, 2007).

In addition, the structure of sukuk is shariah -based financing such as Mudarabah, Ijarah and Istisna is a common thing, Malaysia has pioneered many innovative sukuk structures in the world. Between, the structure sukuk issued in Malaysia is sukuk Ijarah, sukuk Musharaka, sukuk Mudarabah, sukuk Istisna and sukuk Murabahah. Therefore, this paper will focus on sukuk Murabahah in depth.

First of all, Murabahah is derived from the word ' ribh ' which means profit. Technically, Murabahah is a price mark- up that is expressed by seller to buyer for more transparent in the sale and purchase transaction (Abdul Rahman 2010). Murabahah sales can be made by cash or credit (BNM, 2007). According to Institute of Islamic Banking and Insurance (IIBI), (2006) Murabahah is a contract of sale between the bank and its client for the sale of goods at a price plus an agreed profit margin for the bank.

According to Zehtabian (2009), Murabahah is a sale contract in which the seller will informs to the customers all the costs incurred such as transportation cost and shipping. The value of contract will be added on the total cost as profit. While, on the other side, and according to Hussin (2010), Murabahah financing is an asset based financing widely used for house and motor vehicle financing by Islamic banks.

The transaction known as Murabahah to the Purchase orderer (MPO) has adopted a Murabahah structure, which involves three parties, sellers, suppliers and buyers. Only credit sales that can mark-up price based on total cost of the asset (BNM, 2007).

Al-Quran in general allows the sale contract as Allah s.w.t says: "*and Allah allows sales and prohibits usury*" (Al-Quran, 2: 275). In addition, Al-Quran also mentioned in the paragraph to the effect that "*O you who believe, you shall not eat money between your property unjustly except by way of compromise trade you*" There are no permissible sales transactions other than sales with Islamic law (Sahih Muslim). Prophet Muhammad (SAW) was said: "The best earnings are obtained from the earning by his own hand, namely trade" (Narrated Hakim, 2010)

According to Salar (2008), Islamic Murabahah is the latest product to be used by Islamic banks to finance commodity. Financial instruments are often used in exchange transactions in which a trader buys items required by end users and sell the same to him after adding an agreed profit. However, Murabahah transactions can only be used when a customer of a financial institution or a bank wants to buy the commodity. Banks or financial institutions buy and sell the commodity at an agreed profit margin.

Implementation of Murabahah is the exchange of goods and the price has been put in and the profit margins were agreed upon. Accordingly, Murabahah principle is the buyers need to know the original price, additional expenses if any, and the amount of profit. And therefore, Murabahah is a reliable contract (Malik Ibn Anas, 1985).

Basically, Murabahah is a non- specific sales and financing methods. Methods that are ideal for financing under the shariah are Mudarabah or Musharakah. However, since there are difficulties to practice Mudarabah or Musharakah financing methods, shariah experts have allowed the use of Murabahah with credit payments as funding method (Usmani, 2002).

Principle of Murabahah is the seller needs to disclose the real cost of the commodity, additional costs if any and profit on the cost of the commodity, which has been agreed by both seller and buyer. Kamal Khir et al (2008) said that Murabahah has nothing to do with financing, the fact it is a type of sales.

Additionally, the principle of Murabahah as mentioned by Abdul Rahman (2010) was basically an arrangement in which a customer asks the bank to buy in advance of certain goods or property and then reselling back to them at a price that has been add up with a profit. What the most important is the profit needs to be disclosed to the buyer and agreed by both parties. The simple Murabahah is as follows:

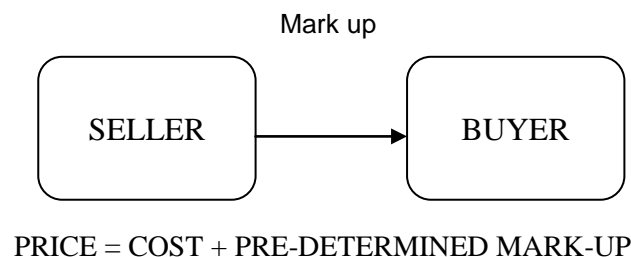


Figure 1: Simple Murabahah Financing (Abdul Rahman, 2010)

MPO is where it involves three parties, namely, the purchase orderer, the purchaser and the seller. It involves intermediary due to lack of expertise or need for credit facility.

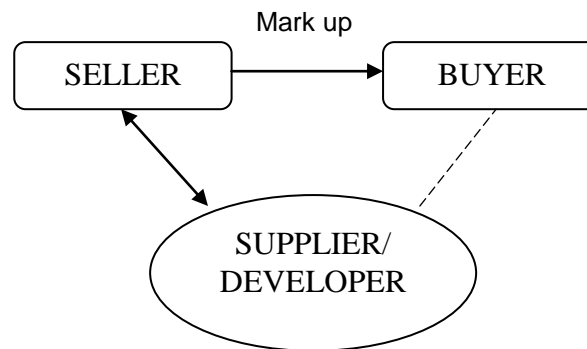


Figure 2: Murabahah to the Purchase Orderer (Abdul Rahman, 2010)

Other related methods of Murabahah financing is bai 'ajil bithaman or bay' al-muajjal. It is a purchase agreement between the seller and the buyer to make payment either in lump sum or installments at an agreed price at a specified time. In general, the sale (bai') is a matter agreed by both parties. In Islamic shariah, it is allowed to put the sales price in deferred sales set higher than the cash sales (Abdul Rahman, 2010). What is important is the object of sale must be in the possession of the bank prior to its submission to the other party such as if in case of default or delay in payment by customers, price is not an issue anymore if the customer is in financial trouble, even to him shall be given, and other date set for payment of the balance price because it was agreed from the beginning of agreement (Abdul Rahman, 2010).

Based on Abdul Rahman (2010), the following items should be taken into account to ensure bai' al-murabahah comply with shariah:

1. Bank must hold and have property before selling it to the customer;
2. Bank should give the option to customers whether to buy or reject the goods;
3. Bank shall bear the risk in the trade;
4. Bank cannot take deposits in advance deposits from customers because it indicates obligation to buy goods;
5. The cost should be known to the buyer in time contract (majlis al- 'aqad);
6. The advantage of the cost price must be stated and known by both parties;
7. The cost must be something that can be measured and compensated;

Interview Questions

In order to reveal the research question regarding why the percentage of demand sukuk Murabahah is slightly less among other sukuk in the Islamic capital market in Malaysia especially in CIMB? several questions to the manager of CIMB have been asked:

1. What do you know about sukuk? How long have your banks apply sukuk Murabahah?
2. In your opinion, does sukuk Murabahah is an effective alternative Islamic Finances that can replace the conventional financial banking?
3. Can you explain the concept and practices sukuk Murabahah issued by your bank?
4. Do you agree that the concept of sukuk Murabahah can be accepted by all users?
5. What are the problems faced by the bank in issuing sukuk Murabahah? How do you solve it?
6. Sukuk Murabahah is sukuk that have a very small percentage compared to other sukuk. Can you explain why?

Methodology of Study

This study is using qualitative research approach with interview method, observation and analysis of previous studies in order to gain primary data. The interview was conducted with the Manager of CIMB, Alor Setar Kedah state. In addition, data collection method also through appropriate books, journals, and other publications. The internet surf also used which discusses some of the issues related to the research objectives, Islamic principles and concepts related to shariah standards and guidelines on Islamic banking industry to enhance understanding of matters related to the study.

Rationalization of Methodology

Sukuk Murabahah is a growth and success in the Islamic capital market and meets the shariah Islamic style (BNM, 2007). Thus, the researchers felt that qualitative research is the best approach to assess the situation and circumstances. Therefore, the main objective of this paper is to find out the reasons of not using sukuk Murabahah in Malaysia and also to understand the concept and practices of sukuk Murabahah market in Malaysia especially CIMB. The analysis includes the understanding that is so deeply how all parties work together to ensure the success of this sukuk Murabahah.

Discussion

As said above deduced from Al-Quran which means "...and Allah permitted trade and prohibited usury" (Al-Quran, 2: 275). This proves that all business transactions that base on shariah and reject usury is allowed in Islam. Similarly, the sukuk Murabahah clearly compliance with shariah, then it is justified.

For whom are focused on the Islamic characteristics, they can choose an alternative bond such as sukuk Murabahah. There is no doubt that many consumers are educated and aware of sukuk Murabahah, but the percentage remains small and not robust. This is because they do not really understand the concept and practices of sukuk Murabahah.

If we look at previous studies (such as Mauro (2013), Salar (2008), and Dusuki (2007)), it proved that the sukuk is a growth and success in the Muslim world. It has been proved when Malaysia continues as leader in the development of Islamic finance and the largest sukuk market in the world (BNM, 2007). Individuals and companies who want to avoid paying high interest will automatically be able to choose and purchase a Murabahah to avoid payment of high interest because it is a *riba*'.

Based on interviews with the Manager of CIMB Alor Setar, he is actually quite agree and support the issuance of sukuk as an alternative of conventional bond because it is more shariah compliance. Furthermore, sukuk which is Islamic investment is less risky compared to existing conventional bond. For these reasons, many users whether Muslim or non Muslim are transferred to the shariah investment compliance. This is not only because it is less risky, but also because it is more transparent and clear to where these investments are invested.

Sukuk Murabahah yet not promoted in CIMB Alor Setar, this is because the use of sukuk is based on demand. If there is demand from customers on sukuk Murabahah, then the bank will issue papers related to sukuk Murabahah to security commission to apply for approval. So far, there is a small number of sukuk which can be obtained from CIMB Alor Setar and one of the sukuk is CIMB Investment Fund. Although it is not a sukuk Murabahah, but it is part of a shariah-compliant sukuk investments.

However, the percentage of demand in the market for sukuk Murabahah is very less compared to other sukuk. This is due to less exposure on sukuk Murabahah. Furthermore, it is common thing, when something new is very difficult to be accepted by consumers because of their mentality state that an existing is still better compared the new one. Therefore, it is quite challenging for the users to accept the new thing like this sukuk.

Many people do not understand the concept of sukuk Murabahah itself and its implementation. They are less exposed to the sukuk Murabahah but many of them are familiar with term of sukuk. In fact, most of them know sukuk is an Islamic bonds and it is an alternative to conventional bonds.

Bank doesn't play crucial part in promoting sukuk Murabahah to the clients. In addition, sukuk Murabahah newly introduced in July 2013. Therefore promotional relatively low if compared with other sukuk. Hence, these cause less awareness on sukuk Murabahah.

How to apply and practice the sukuk Murabahah is also one of the factors why the dearth of demand on sukuk Murabahah. They do not know where to start and how to apply the sukuk Murabahah. Most of them thought that the sukuk can only be applied by big companies that have large equity capital. However, the response is actually wrong. If you look at studies on CIMB, sukuk offered not only for companies but also for individuals. There are also sukuk offered to individuals if they want to make an investment or fund, CIMB Islamic Sukuk Fund whose initial investment is as low as RM2,000.

Therefore, these sukuk can actually subscribed by anyone no matter the company or individual. What is the most important is they need to know which sukuk they want and make sure they meet the criteria and conditions that have been set up by bank.

Recommendations

Recommendations have been made to increase the percentage of use of sukuk Murabahah. They are as follows:

1. Propagation seminar on sukuk especially sukuk Murabahah to sensitize the public about the sukuk;
2. Publish books or booklets and put in a bank counter;
3. Increasing the promotion of sukuk;
4. Replace the conventional agreement with Murabahah agreement;
5. Publicized advantages of sukuk Murabahah compared to conventional.

Conclusion

Based on the collective data and previous study, sukuk is a bond or an alternative Islamic capital alternatively for the conventional capital concept in the Islamic capital market which compliance with shariah.

For the consumer of CIMB, most of them had never heard of the word sukuk and do not understand what exactly is the meaning of sukuk Murabahah itself. The main reason is because of lack of promotion made by CIMB. However, most of them agree with Islamic banking alternative to replace the conventional banking.

Actually it is quite difficult to change consumer perception about something new. They feel hesitant to try something new because it is so risky. Nevertheless, some of them realize that sukuk Murabahah is worthy to be applied because it is independent from 'riba', 'gharar' and 'maisir'. Average customer agrees that if the goods are not selling berries interest because they claimed that it burdens them.

Other factors such as lack of knowledge and understanding of the concepts and practical about sukuk are also the other reasons sukuk Murabahah is the lowest sukuk compared to the others. In addition, the less awareness of customers on the existence of sukuk Murabahah is another reason why the percentage sukuk Murabahah is the lowest.

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