

IMPLEMENTATION OF *BAY' AL-TAWARRUQ* IN ISLAMIC BANKING AND THE CUSTOMER ACCEPTANCE

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Abstract: *A study of Islamic banking products, particularly bay' al-tawarruq transactions, indicates that the objective of these transactions, such as personal finance, working capital expenditure, cash lines, and credit cards, is to give liquidity to the consumer. However, as the industry expands rapidly, the industry is innovating to extend products to include an investment and deposit instrument that provides a fixed return to the customer. Most Islamic banks in Malaysia offer products based on the bay' al-tawarruq concept. This study reviews the implementation of bay' al-tawarruq contract and examines the level of customer acceptance of it. Therefore, this study applies the qualitative research approaches, including among others, past researches reviews regarding bay' al-tawarruq and by interviewing banks' customers. The study discovered that the customer acceptance of bay' al-tawarruq contract is high, as long as it is permissible by the Sha'riah and approved by Bank Negara Malaysia (BNM).*

Keywords: *Bay' al-Tawarruq, Islamic Banking, Customer Acceptance*

2021 JGBSE

Article Received: 14 February 2021, Revised: 26 February 2021, Accepted 12 April 2021

INTRODUCTION

Islamic finance has emerged as an important financial system with worldwide acceptance as it offers a wide range of products and services to accommodate the needs of client globally. Al-Quran has been the source for Muslim around the world acting as a centre of religious and Islamic teaching. Supported by Hadith, the Muslim population act, pray, work, play and perform various activities accordingly including performing *Muamalat* among humanity. Being the holy book of Muslim, the solutions of life (including after life) is discussed which includes financial transaction and banking based upon shariah and continue to grow which reflects the desire for socio, political and economic system based on Islamic principles (Kazi & Halabi, 2006).

Nowadays, most of the Islamic banks there have been many Islamic banking institutions in the world that have offered Islamic-based products that can provide convenience to the

Muslim community. For example, what we can see in general is like *Bay' Bithaman Ajil, Bay' Al-Inah and Bay' Al-Tawarruq*. However, not all Islamic -based banking products can be widely endorsed in most countries because there are differences in terms of the implementation of the contract. Therefore, the solution must be found by finding a widely accepted Islamic banking contract for most countries. However, one of the recent concepts that have been used for most Islamic countries is *tawarruq*.

RESEARCH OBJECTIVE

The primary objective of this study is:

To examine the implementation of *tawarruq* in Islamic banking product.

RESEARCH QUESTION

Research question will state of the specific component of the problem and researcher come out with one research question for this study. The research question is:

How are the implementation of *tawarruq* in Islamic banking product.

LITERATURE REVIEW

Bay' Al-Tawarruq

According to AAOIFI Shari'ah Standard, *bay' al-tawarruq* is defined as the process of purchasing a commodity for a deferred price determined through *musawamah* (bargaining) or *murabahah* (mark-up sale), and selling it to a third party for a spot price to obtain cash (AAOIFI, 2007). In al-Mawasu'ah al-Fiqhiyyah In al-Mawasu'ah al-Fiqhiyyah it is described as the act of purchasing a commodity on a credit basis and then selling it at a reduced price on a cash basis to someone other than the initial seller in order to obtain cash (Kureshi & Hayat, 2015). The council of al-Majma' al-Fiqhi al-Islami bi Rabitah al-Alam al-Islami also provided a similar definition, in its first *bay' al-tawarruq* resolution in 1998, which is the purchase of a commodity owned and possessed by a seller for a deferred price, followed by the buyer's sale of the item for cash to someone other than the initial seller in order to obtain cash (Mohamad, 2014).

According to Kureshi & Hayat (2015), *bay' al-tawarruq* comprises two contracts, for sale and purchase. The first involves a seller selling an asset to a buyer on a deferred basis. Following that, the original sale's purchaser will sell the same asset to a third party for cash and on the spot. *Bay' al-tawarruq* is essentially a hybrid concept that comprises a credit and cash sale, similar to the concept of *bay' al-inah*. The credit sale generally includes a profit margin, which is commonly executed using the *murabahah* principle. *Murabahah* is a cost-plus sale that refers to the sale and purchase of items at a price that includes the profit margin agreed upon by both the seller and the buyer. This approach is commonly employed by Islamic banks and is widely recognized for financing goods around the world. This principle's main objective is asset acquisition.

Meanwhile, *bay' al-tawarruq* is described as someone who buys a commodity with deferred payment and sells it to someone other than the seller for cash at a reduced price in order to obtain cash. In other words, employing a third party to acquire on credit and sell for cash. This notion is similar to *bay' al-inah*, but for the presence of a third party in the middle. The upfront appointment of the bank as an agent to deal with the third party (*wakalah*) is referred to as organized *tawarruq* or *tawarruq munazzam* in current banking practice. (Kureshi & Hayat, 2015).

Implementation of *Bay' Al-Tawarruq*

Following the approval of the BNM resolution, Islamic banks in Malaysia began to develop *bay' al-tawarruq*-based products, particularly for financing, to meet the needs of customers and Shari'ah standards. However, the release of any newly developed product must still adhere to existing BNM guidelines and financing processes, if applicable. Furthermore, internal controls should be in place to verify Shari'ah compliance for this notion.

The introduction of new *tawarruq*-based products to the market, whether for financing or deposit, is comparable to the introduction of other Islamic banking products, which is governed by the Guideline on the Introduction of New Products. Each Islamic bank has its own process for developing new products. For Shari'ah-related matters, it should follow the provision of the Guideline on Compliance with Shari'ah Principles, which is about guaranteeing Shari'ah review processes at the pre and post-stages of product release.

The following is a snapshot of the range of generic financing products and services provided by Islamic banks in Malaysia published by the MIFC:

Concept Used	Product Category	Product Line	Generic Name
<i>Bay' al-tawarruq</i>	Financing	Fund Base	Asset Financing-i
			Commodity Murabahah Financing-i
			Project Financing-i
			Working Capital Financing-i

Asset Financing-i is a type of financing used to acquire assets such as land, plant and machinery, and so on. Project Financing-i is used to fund projects awarded to consumers, such as development initiatives. Working Capital Financing-i is a type of financing that is used for day-to-day business operations. Meanwhile, Commodity Murabahah Financing-i is intended for cash-based financing for customer needs.

Tawarruq is used in three sorts of facilities in today's local financial system: credit cards, personal financing, and business financing. Credit cards are plastic cards provided by a bank or financial institution that allow holders to acquire credit in stores, hotels, restaurants,

and gas stations, among many other places. Personal financing is cash financing provided to retail or individual consumers for consumer-related reasons. Meanwhile, business financing refers to financing provided to non-retail or non-individual customers for the purpose of conducting business. In general, it is a sort of term finance intended for acquiring working capital or other cash (Siddiqi, 2007).

Table 1. Past Researches Reviews Regarding Application and Acceptance of Tawarruq

AUTHORS	SUMMARY OF METHODOLOGY	SUMMARY OF FINDINGS
Mohd Izuwan Mahyudin, Azizi Che Seman (Mahyudin & Seman, 2018)	Data was gathered from two sources: secondary and primary. Data from libraries and reference materials, such as books, papers, journals, and newspapers, are among the secondary sources used. The researcher used interviews with Bank Muamalat Malaysia Behrad (BMMB) workers as primary sources	According to the findings of the study, the <i>bay' al-tawarruq</i> contract is being used as an alternative to the <i>bay' al-'inah</i> contract, particularly for financing-based products offered by BMMB.
Mohammad Mahbubi Ali, Rusni Hassan (Ali & Hassan, 2020)	The methodology used is qualitative research that combines descriptive and content analysis. A questionnaire was issued to 16 Malaysian Islamic commercial banks in order to uncover Shariah noncompliance issues in the implementation of <i>bay' al-tawarruq</i> in Malaysian Islamic banks (IBs).	The study discovered that some <i>bay' al-tawarruq</i> practices in Malaysia may not be Shariah compliant, owing to the inappropriate sequencing of contracts. The survey also revealed that IBs use varied tactics to dealing with SNC events and the income generated as a result of them. The study also found the influence of the board of directors/management on specific Shariah judgments, particularly the treatment of non-halal (impermissible) income.
Abdul Ghafar Ismail, Nik Abdul Rahim Nik Abdul	Provide a review of the contracts underlying deposit-taking activities.	This research has two primary results. The first is that existing deposit-taking activities are defined by principal guarantees, which are contradictory to the

Ghani and Mat
Nor Mat Zain

(Ismail et al.,
2016)

essence of *mudarabah*. Second, the authors propose the presence of *wakalah* in term deposits in *bay' al-tawarruq*, and they claim that applying the notion of *bay al-wakillinafsihi* would not affect the validity of *wakalah*.

Muhamad Yusuf
Abdillah,
Mighfari Elsha
Rabi, Nazarudin
Firli

(Abdillah et al.,
2020)

This study is based on qualitative data and goes deeper into the history, perspectives of Islamic scholars, and legal frameworks employed by both Malaysia and Indonesia.

According to the findings of the study, Malaysia has been able to build advanced *bay' al-tawarruq* products in all aspects of banking and financing. Bay' al-tawarruq applications, on the other hand, are limited in other nations, including Indonesia. Most countries restrict its use to personal funding alone.

Muhammad
Faruq Roslan,
Omar Bamahriz,
Aishath Muneeza,
JinZi Chu,
Zakariya
Mustapha,
Mohamad Zabidi
Ahmad

(Roslan et al.,
2020)

This research conducts a thorough evaluation of the literature on best practice models and the mechanisms of contemporary *bay' al-tawarruq* use.

Although *bay' al-tawarruq* is a contentious contract under Shariah, it is widely used in Islamic banking in Malaysia today. With the advent of the digital age, *bay' al-tawarruq* transactions must be modernized to keep up with modern financial innovation. In general, Islam does not frown on innovation in non-ritual activities unless it breaches a specific Sha'riah prohibition...

METHODOLOGY

This study obtained data from both primary source and secondary source. This study conducted via qualitative approaches which is document research method and interview. The secondary data was gathered from various sources related to the field of study, such as journals, online journals, few related article and books to the study, including among others, past researches reviews regarding the issues on zakat distributions. Secondary data is gathered, recorded and analysed by researcher for a purpose of the study. The study collected data from the libraries are in the forms of related journals on the application of *bay' al-tawarruq* in Islamic Banking provided by the previous researchers.

Furthermore, as for primary source, this study applies qualitative research approaches. Researcher has interviewed 10 bank's customers, who have been using the Islamic structured product. All interviewee are Muslim. This set is chosen in order to study the customer

acceptance toward *bay' al-tawarruq* based product. This study used legal research methodology to explain and analyse the Islamic structured product from the customer perspective. It consists of applied research, analytical/critical research, academic research, descriptive research, and library-type research.

FINDINGS

The interviewee were asked question related with aspects of study, which is, idealized influence and intellectual stimulation. Table 2 shows the result of the customer acceptance towards Islamic structured product.

Table 2: Customer preference and acceptance

INF-	Bank	Bay' al-inah	Bay' bithaman ajil	Bay' al-tawarruq	Do not mind
1.	Maybank Islamic Berhad			√	
2.	Maybank Islamic Berhad				√
3.	Maybank Islamic Berhad				√
4.	Bank Islam Malaysia Berhad				√
5.	Bank Kerjasama Rakyat Malaysia Berhad				√
6.	Maybank Islamic Berhad				√
7.	Maybank Islamic Berhad				√
8.	AmBank Malaysia				√
9.	Public Islamic Bank Berhad				√
10.	Bank Islam Malaysia Berhad				√

Firstly, for the customer preference, the results of the interview shows that most of the interviewee are agreed that they did not care about the Islamic contracts used by the bank to construct financial products as long as it has been approved by the BNM and permissible by the Sha'riah. Customers only shows interest towards permissibility of the Islamic banking product rather than Islamic contract applied. The interest shown by the customers toward the type of Islamic contracts are low and it does not affect their decision making in choosing the Islamic banking products. Plus, their understanding of most interviewees on the Islamic contracts are also low.

As for the customer acceptance, all of the interviewees accepted any Islamic structured product as long as it has been approved by the BNM and permissible in Sha'riah. Only 1 interviewee shows an interest in *bay' al-tawarruq* and choose it over *bay al-inah* and *bai bithaman ajil*. The interviewee that choose *bay' al-tawarruq* argues that it one of the Islamic contract that has less issues compare to other two. 90 percent feel it unnecessary to fully understand how the Islamic contract work and completely rely on the Sha'riah committee of BNM approval before choosing any Islamic banking products.

To sum up, this finding confirms that the type of Islamic contracts used in developing the Islamic structured product does not greatly influence the customer acceptance towards the product but the approval from the BNM and permissible by the Sha'riah are the one that affect their decision.

RECOMENDATION AND CONCLUSION

In the context of customer acceptance, customers did not look on the Islamic contracts used as long as it was approved by BNM. This study can help Islamic Banking in Malaysia to understand the advantages of *bay' al-tawarruq* in the development of Islamic structured products in order to become a competent bank. As for the practitioner's perspective, the findings of this study can be utilized as a reference for Islamic banks to develop their Islamic structured products without regard for the level of customer acceptance, as long as it is permissible by Shariah.

In this context, it is recommended that there should be efforts made by Islamic banks to study and diversify products with Shariah-based contracts from *bay' al-tawarruq*. The use of *bay' al-tawarruq* contracts needs to be expanded as *bay' al-tawarruq* was acceptable worldwide. Most Muslim countries in the middle-east acknowledged and used *bay' al-tawarruq* in developing their Islamic banking products. Secondly, Islamic banking contracts based on *bay' al-Inah* need to be re-examined since most countries no longer apply it in their Islamic banking products. They have found that *bay' al-tawarruq*-based Islamic contracts are safer than *bay' al-Inah*. Therefore, BNM as the authority needs to review so that Islamic banking contracts are always improved from time-to-time. As for future research, it is recommended to expand the use of *bay' al-tawarruq* on Islamic banking products by maximizing the production of products that can be marketed internationally and not just accepted at the local level only.

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