

UNIVERSITI TEKNOLOGI MARA

**MANAGING RISK IN
DISBURSEMENT AND REPAYMENT
SYSTEM OF ISLAMIC
MICROFINANCE SERVICE
PROVIDERS: A TECHNOLOGICAL
PERSPECTIVE**

NABILAH ROZZANI

Thesis submitted in fulfillment
of the requirements for the degree of
Doctor of Philosophy
(Accountancy)

Faculty of Accountancy

April 2018

ABSTRACT

An urge to cope with globalised environment of banking industry makes it important for Islamic microfinance service providers to seek for new business opportunities. They are therefore vulnerable towards different risks from various sources, which could affect their ability to sustain in the market. Moving forward with vast advancement of technology, many Islamic microfinance service providers have initiated the integration of various innovations to improve risk management. Hence, the current study attempts to seek for qualitative evidences that would explain why and how applications and acceptance of banking technology are changing risk management process for disbursement and repayment system of Islamic microfinance service providers. Comparative case study research method is used to explore risk management processes and implementation of technology for disbursement and repayment system in two types of Islamic microfinance service provider. Qualitative data are collected from observation in client meeting, interview with selected clients and staffs, also documentation obtained from two selected case institutions. Data is then analysed using NVivo 11 to make coding easier and more simplified, as well as to facilitate the process of thematic analysis and pattern matching. From data analysis and findings, it was found that both case institutions of current study appear to be vulnerable towards financial risk, operational risk and strategic risk. Although they were found to have similar risk management process, diffusion of banking technology appears to show different effects in improving risk management. Most informants of the current study agreed that mobile banking is already an effective mechanism for disbursement and repayment in Islamic microfinance service providers. However, they believe that an enhancement towards security features of the channel would be highly beneficial. In addition to that, collaboration or knowledge exchange between Provider A and Provider B was found to be feasible to improve disbursement and repayment system of both institutions. Additionally, the current study had proposed a conceptual framework which enhanced the relationship found between Social Construction of Technology theory, Diffusion of Innovation theory, and also risk management process with the introduction of three constructs of awareness, attitude and trust. The proposed conceptual framework reflects findings from the qualitative nature of current study. This framework reflects how the three human-related factors influence how banking technology would improve risk management of disbursement and repayment system in Islamic microfinance service providers. Future researches could test the proposed conceptual framework from a positivist perspective using quantitative measurements and longitudinal data; investigate banking technology which would best benefit both providers and clients with respect of disbursement and repayment system; also investigate risk management process of disbursement and repayment system from a technological perspective.

ACKNOWLEDGEMENT

In the name of Allah S.W.T., the Most Beneficent and Most Merciful.

First and foremost, all praises and thanks to Allah for giving His blessings, to provide me with strength, perseverance, and good health during the process of exploring this study. Knowledge attained from the journey of completing this research has indeed been applied for self-progression.

This research would not have been possible without the support and encouragement from my beloved parents, Rozzani Baharuddin and Mahiran Mohamed. Their consent and never-ending support during the ups and downs of this journey had made me a better person and placed me where I am today. There are no words enough to express my appreciation for their contribution and sacrifice to help me make a better living, let it be academic or personal.

I believe that there is no statement of gratitude that can do more justice to the support and encouragement received from my supervisors, Dr. Intan Salwani Mohamed and Assoc. Prof. Dr. Sharifah Norzehan Syed Yusuf. It has been a great pleasure working under their supervision, professionalism and proficiency which had led me to stay focused with what I intend to achieve from this research. Also, a big thanks to examiners of this PhD thesis, Prof. Dr. Abdul Rahim Abdul Rahman, Assoc. Prof. Dr. Abu Umar Faruq Ahmad and Assoc. Prof. Dr. Hj. Nawal Kasim, who had been willing to look into this write up and suggest for further improvement. Thank you for your patience and time taken out of your busy schedules to guide me go through this academic experience.

To my wonderful siblings, Nurul Aiman, Nur Aqilah, Nurin Maisarah and Nurin Jazlina, also dearest family, thank you for understanding and supporting my journey in obtaining a Doctoral Degree, all the way to the completion of this thesis. Special thanks also goes to all friends and my small PhD support group for supporting me throughout the academic course, listening to my thoughts and suggesting ideas in striving to finish this research in an allocated time. Without their love, patience, support, encouragement and sacrifices, this undertaking could never have succeeded in the first place.

This PhD thesis would not have been a reality without the assistance and co-operation of many individuals. With that, I take this opportunity to give thanks and personal gratitude to all who had been directly or indirectly contributed to the completion of this research. May all your kindness be blessed and rewarded by Allah S.W.T., *Insyallah*.

Thank you.

TABLE OF CONTENTS

	Page
CONFIRMATION BY PANEL OF EXAMINERS	ii
AUTHOR'S DECLARATION	iii
ABSTRACT	iv
ACKNOWLEDGEMENT	v
TABLE OF CONTENTS	vi
LIST OF TABLES	xiii
LIST OF FIGURES	xv
LIST OF ABBREVIATIONS	xvii
CHAPTER ONE: INTRODUCTION	1
1.1 Preamble	1
1.2 Definition of Key Terms	3
1.2.1 Islamic Microfinance	4
1.2.2 Disbursement and Repayment	6
1.2.3 Technology	7
1.2.4 Risk and Risk Management	9
1.3 Background of Study	11
1.4 Issues and Problem Statement	12
1.5 Objectives of Study	15
1.6 Research Questions	16
1.7 Scope of Study	16
1.8 Justification of Study	17
1.8.1 Gaps in Knowledge Area	19
1.8.2 Justification for the Selection of Industry	20
1.8.3 Potential Outcomes and Practices	21
1.9 Significant Contribution to the New Knowledge	22
1.10 Organisation of Chapters	24
1.11 Chapter Summary	25

CHAPTER ONE

INTRODUCTION

1.1 Preamble

Similar to other types of financial institutions, Islamic microfinance service providers are exposed to many different risks, which could subsequently influence their abilities to pay liabilities to funders (MicroWorld.org, 2013). This risk exposure is added with *Shari'ah* compliance aspect of these institutions, as the financial contracts that are built as foundation to Islamic microfinance products can be operated individually and in combination with other Islamic contracts to create hybrid instruments. Therefore, market structure of Islamic microfinance is rather complex as compared to its conventional counterpart, since there are no centralised *Shari'ah* finance authority established to advise Islamic microfinance service providers with regards to credit structure and legal contracts (Karim, Tarazi, & Reille, 2008; Rhule, 2016). Although there is a general agreement on basic set of Islamic microfinance products, conflicting views may arise during implementation of *Shari'ah* laws to product design and extensions (Rhule, 2016). An urge to cope with the pace of globalised environment of banking industry makes it even more essential for Islamic microfinance service providers to seek for new business opportunities in enhancing competitiveness and improving performance.

By achieving competitive advantage and better performance, Islamic microfinance service providers would be able to gain better sustainability as an effort to overcome their problem of capital deficiency. Capital deficiency issues in Islamic microfinance service providers are becoming more significant today as these providers are only relying on external funding from local philanthropists, Islamic charitable sources and public sector institutions without being able to generate their own credit cycle to accommodate new clients. To date, Islamic microfinance service providers have yet to develop workable operational technique which would ensure their self-dependency and self-sustainability (Kabir & Salim, 2016).

The ability to be self-sustainable is rather important, especially in Malaysia, as many of its Islamic microfinance service providers rely heavily on grants and soft