

**IDENTIFYING MATHEMATICAL MODELS IN MANAGING ISLAMIC INVESTMENT
PRODUCTS USING MUSYARAKAH CONCEPT**



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Contents

1. Letter of Report Submission.....	iii
2. Letter of Offer (Research Grant).....	iv
3. Acknowledgements.....	v
4. Enhanced Research Title and Objectives.....	v
5. Report.....	1
5.1 Proposed Executive Summary.....	1
5.2 Enhanced Executive Summary.....	2
5.3 Introduction.....	2
5.4 Brief Literature Review.....	5
5.5 Methodology.....	8
5.6 Results and Discussion.....	9
5.7 Conclusion and Recommendation.....	15
5.8 References/Bibliography.....	17
6. Research Outcomes.....	18
7. Appendix.....	20



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Tuan/Puan,

TAJUK PROJEK FRGS: IDENTIFYING MATHEMATICAL MODELS IN MANAGING ISLAMIC INVESTMENT PRODUCTS USING MUSYARAKAH CONCEPT

Dengan segala hormatnya perkara di atas adalah dirujuk.

Sukacita dimaklumkan Jabatan Kementerian Pengajian Tinggi Malaysia telah meluluskan permohonan projek penyelidikan tuan/puan bagi FRGS Fasa 1/2008 seperti tajuk di atas dengan keputusan seperti berikut:-

"Disokong dengan peruntukan RM51, 000.00 - Pembelian alat tidak dibenarkan seperti computer dan pencetak kecuali untuk penyelenggaraan".

Kelulusan ini juga tertakluk kepada syarat-syarat seperti berikut:-

1. Tempoh projek penyelidikan ini ialah 2 tahun iaitu bermula **1 Julai 2008** sehingga **30 Jun 2010**.
2. Kos yang diluluskan ialah sebanyak **RM51, 000.00** sahaja. Sila kemukakan bajet yang baru mengikut kos yang diluluskan dengan menggunakan borang Bahagian E-Budget/Belanjawan. Perbelanjaan hendaklah mengikut butiran Belanjawan yang telah diluluskan.

5. Report

5.1 Proposed Executive Summary

The Islamic banking has emerged as a significant and popular banking system in Malaysia. At present, the Islamic banking is able to offer competitive alternatives to conventional products and services, In Malaysia, *murabahah* and *bai bithaman ajil* concepts are widely used in most of the products under Islamic banking. Unfortunately foreign investors especially from Middle East are inclined toward products which are based on *musyarakah* concept.- *Musyarakah* contract is a joint venture between two or more parties and the profit is shared according to the agreed profit sharing ratio. None of the Islamic banks in Malaysia uses these concepts in more than 10% of their financial portfolio.

The objectives of this research is to investigate the common variables used in managing Islamic investment products offered by Islamic banks and to identify the *musyarakah* models currently practiced by Islamic banks. This will enable us to compare those models with the proposed *musyarakah* model. Lastly, the suitability of the proposed *musyarakah* model in packaging an Islamic investment product is investigated and if necessary, is modified.

Upon understanding the principles used in Islamic banking products, questionnaires pertaining to the model being used and susceptibility of the *musyarakah* model are developed. This is for personal interview sessions with the officers (respondents) who are in charge of Islamic banking products, to get detailed description about the schemes offered and the mathematical model used by banks. Data collection related to the Islamic investment products such as initial investment, profit rate, contract term, etc will be obtained. Then the compatibility of the variables involved in the existing model and the proposed *musyarakah* model is tested and analyzed. Next, the existing models and the proposed *musyarakah* model are compared. Modification of the proposed model is done if necessary; this is to suit the packaging of Islamic investment products in the present system. This research may develop new model or tool of managing investment between two parties that suits the working environment of Islamic banks.

5.2 Enhanced Executive Summary

The Islamic banking has emerged as a significant and popular banking system in Malaysia. At present, the Islamic banking is able to offer competitive alternatives to conventional products and services. In Malaysia, *murabahah* and *bai bithaman ajil* concepts are widely used in most of the products under Islamic banking. Unfortunately foreign investors especially from Middle East are inclined toward products which are based on *musyarakah* concept. *Musyarakah* contract is a joint venture between two or more parties and the profit is shared according to the agreed profit sharing ratio. None of the Islamic banks in Malaysia uses these concepts in more than 10% of their financial portfolio.

This research has found that the common variables used in managing Islamic investment products offered by Islamic banks are the same as conventional banks except for the profit sharing rate offered by Islamic banks. The proposed *musyarakah* model is suitable in packaging Islamic investment products.

Beside the proposed model, there are other *musyarakah* models that may be used in managing the investment between two parties. Nevertheless the proposed model is far better than the other models in internalizing the spirit of fairness and justice for all involved parties.

5.3 Introduction

The first Islamic financial system was developed in Mit Ghamr, Egypt by Ahmad El Nagar in 1963 (Nik Norzul, Mohamed Ridza & Megat Hizaini, 2003). Consequently, Islamic Development Bank was established in 1974 with the objective of providing funds which are free from interest for the member of countries' development projects (Lewis & Algaoud, 2001).

The Pilgrims Fund Board or *Lembaga Tabung Ha7* which was set up in 1963 was the first Islamic institution that emerged in Malaysia (BNM, 2010a). In January 1981, the first meeting was held at Development Bank of Malaysia to establish Bank Islam Malaysia Berhad (BIMB), the first Islamic bank in Malaysia (Nik Norzul et al., 2003; BNM, 2010a).