

# IF I KNOW

**Nurul Naim Bt. Ahmad Rasli, Noor Hidayah Bt. Zainudin & Nor Razuana Binti Amram,**  
Faculty of Management and IT, University Sultan Azlan Shah  
Tel: +6018-2708511 E-mail: nurulnaim@usas.edu.my

## **8.10 am, Wednesday 1<sup>st</sup> November 2017, USAS**

I hope all of you have print attachments I put in LMS, I said as soon as I started the morning class. Most of them nodded their heads and placed them on the table.

I started the class by giving a brief description of ibra '. It reminds me of the first experience when I first learned about ibra '.

## **9.30 am, Monday 22<sup>nd</sup> November 2008, Bank**

Marina, Adan, Wan Khai and me were called to do special tasks.

Today we will do special task to reschedule and restructure 80 Islamic accounts for our client that have been identified informed my boss, Mr. Ariffin.

First step, we need to do a cut off to identify how much ibra ' should we give to our customers explained En Ariffin.

It was the first day I recognized ibra 'and learned about ibra'.

## **BACKGROUND OF IBRA'**

Ibra' represents the waiver on right of claim accorded by a person to another person that has an obligation (zimmah) which is due to him. Ibra' or "rebate" refers to an act by a person relinquishing his rights to collect payment due from another person. In the

context of Islamic finance, an Islamic Financial Institution (IFI) may grant ibra' to its customers of a sale-based financing (such as murabahah and bai' bithaman ajil) who settle their debt prior to the agreed settlement period as stipulated in the agreement concluded by both parties.

In a sale-based financing contract, a customer is required to settle the selling price (comprising the principal sum and profit margin), regardless as to whether the contract is on deferred or spot basis. For deferred payment financing, principally an IFI has the right to claim from the customer the outstanding selling price that will also include the deferred profit portion even in early settlement. Under this circumstance, IFI is encouraged to grant ibra' by forgoing the IFI's right over the debt of the remaining deferred profit portion to its customer in early settlement cases.

In the 13<sup>th</sup> Meeting on 10 April 2000, the SAC issued a resolution where IFIs may incorporate a clause on the undertaking to provide ibra' to customers who make early settlement in the financing agreement on the basis of public interest. The inclusion of an ibra' clause in the financing agreement would required IFIs to honour the undertaking or promise to grant ibra' to its customers. In the 101<sup>st</sup> Meeting on 20 May 2010, the SAC issued a subsequent resolution to further safeguard public interest and to ensure that customer protection is carried out consistently.

## INSTRUCTOR'S MANUAL

<b>CASE SUMMARY</b>	Ibra' is a term used in Islamic banking and finance literature which denotes the granting of rebate by Islamic banks, at their discretion, to their customers who settle their debt obligations arising from sale-based contracts prior to the agreed settlement period. The issue of the application of ibra' in default cases arose in court since the first known reported case in 1994. The concept of ibra' has been widely used by Islamic financial Institutions in their products and services, which reflect that ibra' play an important role in making Islamic banking products and services viable and relevant in contemporary time. Therefore knowledge
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	about ibra' is very necessary in mastering a branch of knowledge about Islamic Finance.																																																																																																							
OBJECTIVES OF THE CASE	1. To understand, calculate and determine the concept of Ibra' to promote transparency and equitable mechanism of the granting of ibra' by IFIs.																																																																																																							
BASIC PEDAGOGY	COURSE				MIF 6083																																																																																																			
	LEVEL				Degree																																																																																																			
	POSITION IN THE COURSE				Chapter 6																																																																																																			
	PREREQUISITE				-																																																																																																			
RESEARCH METHODOLOGY	Article, Journal and Guideline on Ibra' by Bank Negara Malaysia																																																																																																							
DISCUSSION QUESTIONS	<p>1. What is the purpose of Ibra'</p> <p>2. Identify who is eligible for Ibra'?</p> <p>3. How is the consideration of ibra 'on the case where termination of financing arising from non-delivery or non-possession of the underlying asset?</p> <p>4. Describe the significance of ibra' in contemporary Islamic finance.</p> <p>5. Assume Ahmad approached the bank for early settlement of his home financing using Bai Bithaman Ajil (BBA) contract. He approached for early settlement at the 48<sup>th</sup> instalment and no early settlement charge are imposed. Illustrative customised payment schedule for fixed rate BBA.</p> <table><tr><th>No</th><th>Due Date</th><th>Instalment</th><th>Profit</th><th>Principal</th><th>Total Outstanding</th><th>Principal Outstanding</th><th>Deferred Profit</th></tr><tr><td>1</td><td>31Jul09</td><td>2028.53</td><td>1500.00</td><td>528.53</td><td>365,135.97</td><td>200,000.00</td><td>165,135.97</td></tr><tr><td>2</td><td>31Aug09</td><td>2028.53</td><td>1496.04</td><td>532.50</td><td>363,107.44</td><td>199,471.47</td><td>163,635.97</td></tr><tr><td>3</td><td>30Sept09</td><td>2028.53</td><td>1492.04</td><td>536.49</td><td>361,078.91</td><td>198,938.97</td><td>162,139.93</td></tr><tr><td>4</td><td>31Oct09</td><td>2028.53</td><td>1488.02</td><td>540.51</td><td>359,050.38</td><td>198,402.48</td><td>160,647.89</td></tr><tr><td>5</td><td>31Nov09</td><td>2028.53</td><td>1,483.96</td><td>544.57</td><td>357,021.85</td><td>197,861.96</td><td>159,159.87</td></tr><tr><td>48</td><td>30June13</td><td>2028.53</td><td>1,277.62</td><td>750.91</td><td>267,766.53</td><td>169,598.40</td><td>98,167.98</td></tr><tr><td>49</td><td>31July13</td><td>2028.53</td><td>1,271.99</td><td>756.55</td><td>265,738.00</td><td>168,841.85</td><td>96,895.99</td></tr><tr><td>50</td><td>31Aug13</td><td>2028.53</td><td>1,266.31</td><td>762.22</td><td>263,709.47</td><td>168,079.63</td><td>95,629.68</td></tr><tr><td>178</td><td>30Apr24</td><td>2028.53</td><td>44..97</td><td>1,983.57</td><td>4,057.63</td><td>4,011.88</td><td>45.21</td></tr><tr><td>179</td><td>31may24</td><td>2028.53</td><td>30.09</td><td>1,998.44</td><td>2,029.10</td><td>2,013.43</td><td>15.21</td></tr><tr><td>180</td><td>30June24</td><td>2028.53</td><td>15.10</td><td>2,013.43</td><td>0.57</td><td>0.00</td><td>0.00</td></tr></table> <p>a. Find Ibra' amount?</p> <p>b. What is a settlement amount?</p>								No	Due Date	Instalment	Profit	Principal	Total Outstanding	Principal Outstanding	Deferred Profit	1	31Jul09	2028.53	1500.00	528.53	365,135.97	200,000.00	165,135.97	2	31Aug09	2028.53	1496.04	532.50	363,107.44	199,471.47	163,635.97	3	30Sept09	2028.53	1492.04	536.49	361,078.91	198,938.97	162,139.93	4	31Oct09	2028.53	1488.02	540.51	359,050.38	198,402.48	160,647.89	5	31Nov09	2028.53	1,483.96	544.57	357,021.85	197,861.96	159,159.87	48	30June13	2028.53	1,277.62	750.91	267,766.53	169,598.40	98,167.98	49	31July13	2028.53	1,271.99	756.55	265,738.00	168,841.85	96,895.99	50	31Aug13	2028.53	1,266.31	762.22	263,709.47	168,079.63	95,629.68	178	30Apr24	2028.53	44..97	1,983.57	4,057.63	4,011.88	45.21	179	31may24	2028.53	30.09	1,998.44	2,029.10	2,013.43	15.21	180	30June24	2028.53	15.10	2,013.43	0.57	0.00	0.00
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	<p>c. If Ahmad defaulted 11 instalment (from 37<sup>th</sup> to 47<sup>th</sup> instalment), and the bank executed foreclose proceedings and auctioned the asset, and proceeds amounting RM185,000 were received by bank from the auction, calculate:</p> <p>i. Ibra' amount.</p> <p>ii. Settlement amount and</p> <p>iii. Amount claim by bank from Ahmad.</p> <p>(Note: late payment charge= RM1,025.42 and Early Settlement Charge = RM300.00)</p>
<b>SUGGESTED RESPONSES</b>	<ol style="list-style-type: none"> <li>1. The purpose of Ibra' is to promote transparency and equitable mechanism of the granting of Ibra' by Islamic financial Institution.</li> <li>2. (i) Customers who make an early settlement or early redemption, including those arising from prepayments; (ii) Settlement of the original financing contract due to financing restructuring exercise; (iii) Settlement by customers in the case of default; and (iv) Settlement by customers in the event of termination or cancellation of financing before the maturity date.</li> <li>3. Although sale-based financing necessitates the existence of the asset, there are cases of financing facility being terminated due to non-delivery or non-possession of asset. These cases may originate from abandoned projects (for example, housing under construction), mandatory purchase by government, fraud by vendor/manufacture, theft, act of God and seizure of asset by custom. Bank are required to apply due consideration in handling cases of non-possession of asset by the customer. In some situations, Bank may suffer losses due to non-payment of financing while the customer may end up without any asset. In the case of non-possession of asset by the customer and where there is a portion of the principal amount yet to be disbursed such as in the case of abandoned project (for housing under construction), bank are not allowed to claim the undisbursed principal amount. Instead, upon settlement by customers, the bank should grant Ibra' on the undisbursed principal amount. Principally, bank may only recover the disbursed cost of purchase and waive the profit portion in the case of non-possession of asset by the customer. In some circumstances, bank may have already accrued some portion of profit for a certain period during the term of the financing contract. In this situation, bank are allowed to claim the accrued profit portion of financing up to the date of the first sign of inability to deliver the</li> </ol>

	<p>asset, for example, the date of the last amount disbursed to the contractor/manufacturer or when the project is categorised as 'late' or the pronouncement of court order to stop construction. Bank are expected to perform their due diligence as a counterparty of the sale contracts/transactions involving assets that are under construction or manufacturing. Bank are expected to establish a monitoring mechanism to identify signs of non-delivery of assets such as ensuring that there is a frequent or periodic communication with the customer and contractor/manufacturer.</p> <p>4. 1 )Ibra' is significant to make Islamic financial products and services competitive with that of conventional. The incorporation of ibra' in terms and conditions of a financing agreement makes Islamic products and services more attractive to the customer and the customer may have a chance to pay lesser than the agreed selling price. 2) Ibra' serves as a significant mechanism to resolve disputes arising from Islamic financial products and services. Ibra' in this regard functions as a method of reconciliation (sulh) between the contracting parties when it comes to settling disputes in courts, which may have required a longer process and incur more costs.</p> <p>5. Calculation:</p> <p>a. Ibra' = Deferred profit – Early settlement charges = 98,167.98 – 0.00 = <b>98,167.98</b></p> <p>b. Settlement amount = Outstanding selling price + Instalments due – Ibra' = 267,766.53 + 2,028.53 – 98,167.98 = <b>171,627.08</b></p> <p>c. Calculation</p> <p>Instalment due but unpaid = 11 instalments &amp; 48th instalment = 12 x RM 2,028.53 = RM 24,342.36</p> <p>i. Ibra' = Deferred profit – Early settlement charges = 98,167.98 – 300.00 = <b>97,867.98</b></p> <p>ii. Settlement amount = Outstanding selling price + Instalments due + Late payment charges – Ibra' = 267,766.53 + 24,342.36 + 1,025.42 – 97,867.98 = <b>195,266.33</b></p> <p>iii. Amount claimed = 195,266.33 – 185,000.00 = <b>10,266.33</b></p>
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