

Proposed Model for the Implementation of Sadaqa House as Banking Product or Service

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Abstract

This study is conducted to suggest a suitable model for implementing Sadaqa House as a banking product or service. The concept of Sadaqa House was introduced by Dato Dr. Abdul Halim Ismail during his speech at Global Islamic Finance Forum in 2014. In his speech, he proposed to the banks to embark on efforts to develop product and services to meet the financial requirements and demand for social welfare sector. He suggested that the Sadaqa House to be operated in the Islamic banking system and in the Islamic capital market. He also suggested that the Sadaqa House to be under the supervision of Bank Negara or the Security Securities Commission. Taking into consideration of his brilliant idea, this study explore the suitable model for the implementation of Sadaqa House as a banking product or service. The study has designed a framework for Sadaqa House in the Islamic banking sector based from the Investment Model. The model is identified that suitable for the implementation of Sadaqa House since it has a similar concept. Islamic banks may use the infrastructure and system of investment model to start with Sadaqa House.

Keywords: Sadaqa House, social welfare, Islamic banks

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Introduction

Islamic banking has become a growing force in global financial circle over the past three decades and no exception in the case of Malaysia. Most of the countries in the world are now experiencing dual banking system, where the banks involved in alternative form of banking along the conventional banking. This is one of the biggest challenges to Muslims in the field of economics. It creates controversies and people start questioning how Islamic is the Islamic banks.

According to Malik et al. (2010) Islamic banks run mainly through private institutions focusing on profit maximizations. This contradicts with the concept of Islamic economics where the profit maximization is not the ultimate objective in Islam and human welfare maximisation is required in an Islamic economic system. It is the Islamic economics which will define the shape and form of the Islamic financial system, and which in turn will define the shape and form of Islamic banks.

Halim (2014) suggested for the Islamic banks to embark on efforts to develop products and services to meet the financial requirements and demands of social welfare sector. By embarking on this, the Islamic banks will meet the objective of Islamic economics especially in the part of poverty alleviation and betterment of ummah. This will differentiate the Islamic banks from the conventional banks. Halim (2014) proposed the Islamic banks to form a new product called Sadaqa House. The question here is how Islamic banks can embark on the development of products and services that cater for the social welfare sector? To shed some light on the above question, this study will explore a suitable model for the implementation of Sadaqa House as a banking product or service.

Model Proposed by Halim

According to Halim (2008), Islam basically is divided into three main branches, Aqidah, Shariah and Akhlaq. Aqidah relates to all matters of faith in Allah S.W.T, the Creator Muslims worship, His characteristics, our fundamental faith in Him and belief in His commands. Akhlaq deals with the higher behaviour of Muslims, his character as required of him. Shariah is divided into two broad categories namely Ibadat and Muamalat. Ibadat refers to the rules of worship or in other words man-to-Allah concerns whereas Muamalat refer to rules of man-to-man relationship. Muamalat is however not specifically confined to economic rules but encompasses also political and social rules. Islamic banking and finance fits under the Muamalat. However, there is another subheading under Islamic banking that falls under Islamic economics which usually are less emphasized and forgotten.

Halim (2014), in his key note address during the Global Islamic Finance Forum 2014 mentioned that Islamic economics consists of three sectors; namely siasi sector (government sector), tijari sector (private sector) and ijtimai sector (welfare sector). Siasi sector is the public sector that establishes laws and regulations, implements economic policies and manages assets under state ownership. The tijari sector is the private sector, which is essentially the muamalat sector. This sector is involved in the creation of wealth encompassing the whole spectrum of economic activities from production to distribution and consumption. The third sector, ijtimai sector is a sector that carries the responsibility for the social welfare of the ummah, for example the zakat, waqf, sadaqa and qard hasan.

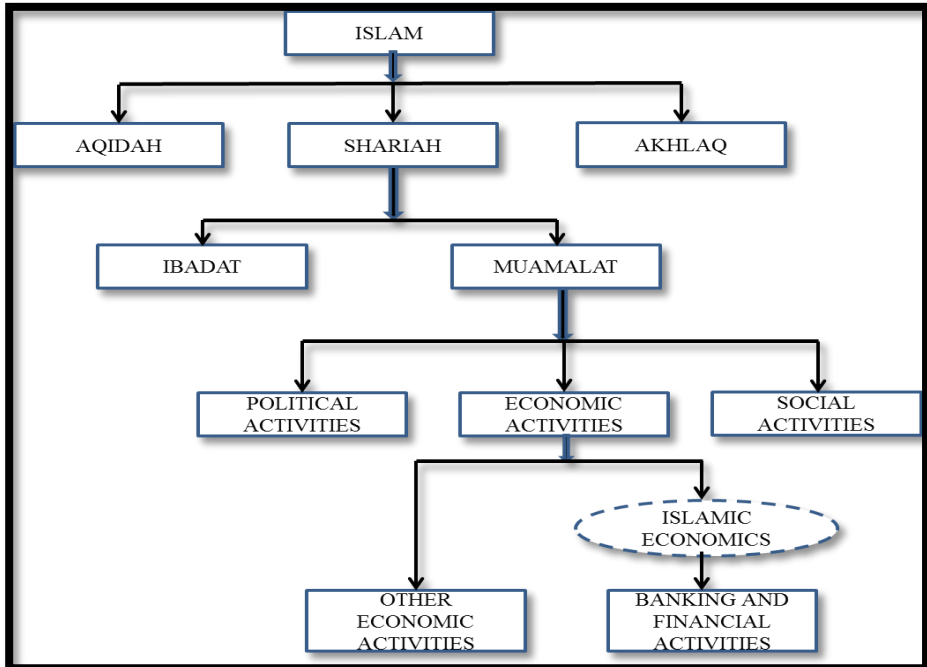
He stressed that the current Islamic finance only involves two sectors which are government and private sector meanwhile there is a need for enhancement in the social welfare sector. The Islamic banking and finance should be inclusive and encompass all the three sectors of the economy. He proposed for the Islamic banks to embark on efforts to develop products and

services to meet the financial requirements and demands of social welfare sector.

One of his brilliant ideas to the Islamic banks is to form a new Islamic bank product of Sadaqa House or Bayt Al-Sadaqa, as a vehicle to serve the financial requirements and demands of social welfare sector.

In general framework of Islamic Financial System, banking and financial activities falls under the Islamic economics as illustrated in Figure 2. However, the element of Islamic economics were less emphasised under the economic activities. Advocates of Islamic economics generally define it as middle ground between the system of Marxism and capitalism. Among the claims made for an Islamic economic system by Islamic activists are that the gap between the rich and the poor will be reduced and prosperity enhanced. Sadaqa House can be one of the methods to promote Islamic economic system in banking and financial activities.

Figure 1: General Framework of Islamic Financial System

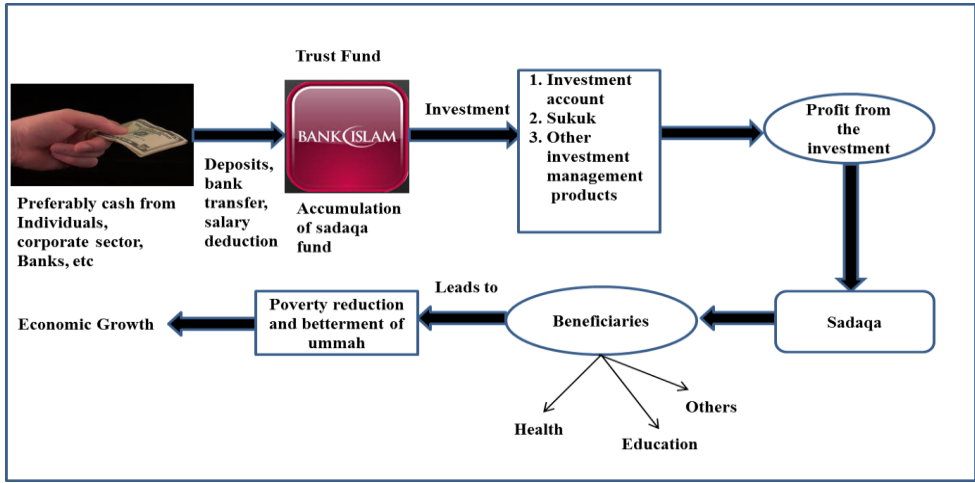


The Concept of Sadaqa House

Sadaqa House according to Halim (2015) can be defined as a business that provides product and services to collect the various types of sadaqa, waqf, hiba and etc mainly from the private sector and distribute these to the poor and the needy in the social welfare sector. The important requirement of Sadaqa House is that it is owned and controlled by the banking group or any other organisation which is given licence. Halim (2015) proposed that the Sadaqa House to be operated in the Islamic banking System and in the Islamic capital market. Therefore the proposed Sadaqa House should be under the supervision of Bank Negara Malaysia or the Securities Commission of Malaysia.

The idea of Halim (2015) on the perspective of sadaqa as banking product and service can be conceptualised as the Figure 2.

Figure 2: Concept of Sadaqa House



Source: Halim (2015)

Basically, from the view point of Halim (2015), sadaqa that are given by the donors preferably in the form of cash either it is deposited to the banks, through bank transfer or through salary deduction. The donors here refer to any individuals, businesses, corporate sectors or banks who intend to donate their money.

The donated money will be accumulated in an account in the Islamic banks and probably it is in trust fund account. The accumulated sadaqa money will be invested in sukuk or in other investment management product. The profits from the investment will be channelled to sadaqa and the beneficiary can be for health, education or other purposes.

The initial money donated by the donors will be accumulated and it will increase day by day by the increment of the number of donors and the frequency of sadaqa made. The profit will increase since the initial increases. The amount of sadaqa will also increase. This scenario will give positive impact towards the poverty alleviation in Malaysia and the development of ummah.

Similar Framework in Current Banking Sector

Investment model in a banking sector is identified as having a similar framework as per suggested by Halim (2015). The model of investment is illustrated in Figure 3.

Figure 3: Restricted Investment Account Model

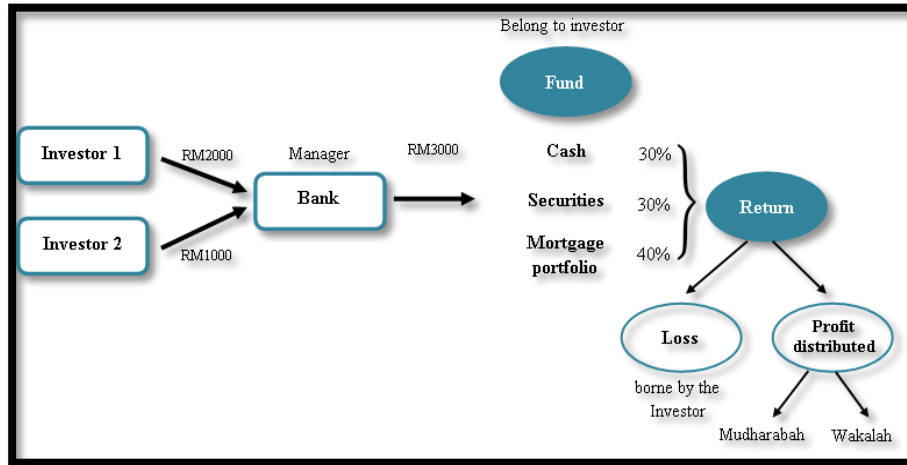


Figure 3 explains the process of investment in the banking sector. Assume that there are two investors who would like to invest each RM 2000 and RM1000 in a bank. The investment amount from these two investors will be deposited in the bank where it will be managed by the manager of the particular bank. The fund basically belongs to the investors and it will be invested either in securities or mortgage portfolio or cash or in other investments.

Example from the figure above, the bank has invested 40 percent for the mortgage portfolio, 30 percent for securities and cash 30 percent as per required by the investors. The return from these investment can be profitable or at loss. If the return is profitable, it will be shared by investors and banks, provided the concept of investment agreed by the investor is mudaraba meanwhile for wakalah, the bank will only receive fee base income (investment

fee). In the case when the investment returns is not profitable, the investors solely will bear the loss.

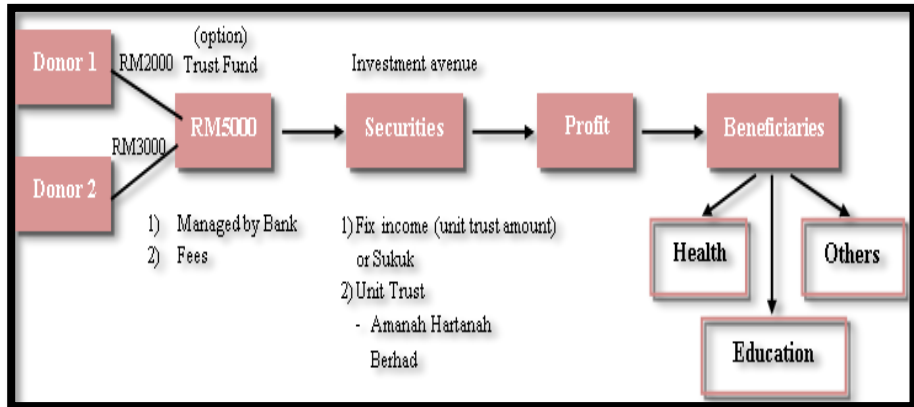
Currently there are three banks in Malaysia where they offer product based on the concept of investment; Maybank Islamic, Bank Islam Malaysia Berhad and Kuwait Finance House. In Maybank Islamic the product is called as Mudarabah IA, in Bank Islam it is called as Al-Awfar and in Kuwait Finance House it is called as Mudaraba Plus Account-i.

The Propose Framework for Sadaqa House in the Banking Sector

This study will propose Sadaqa House framework based from the investment conceptual model discussed above. The model is identified as the suitable model for the implementation of Sadaqa House in the banking sector. Figure 4 shows the proposed framework for Sadaqa House using the similar concept.

The investors in the context of investment framework are replaced with donors in the framework of Sadaqa House. Donors in this framework refer to individuals, businesses, corporate sectors, banks or anyone who intent to donate. The exemption of tax is an important factor that needs to be looked into in order to encourage people or organisation to donate. Sadaqa House may accept money through deposits, bank transfers, salary deduction and etc. The donated money will be deposited in the account for example trust fund managed by the manager of the banks. The fund will be invested to gain profit. The investment avenue could be in securities, fixed income such as sukuk or in unit trust; example Amanah Hartanah Berhad. The profit from the investment will be channelled to the Sadaqa House or beneficiaries; namely health, education or others.

Figure 4: Proposed Sadaqa House Framework



The bank as a service provider can claim fees for trustee and management. The fees will be deducted from the profits before it is given to the beneficiaries. This method is similar with the wakalah concept. The investment venue chosen by banks must be minimal risk since the money invested is for the purpose of sadaqa.

The infrastructure and system for Sadaqa House can be considered available, especially the banks that implement investment model; for example Bank Islam, Maybank Islamic and Kuwait Finance house. This will reduce the cost for the bank since the existing infrastructure can be used for the implementation of Sadaqa House. This model reflects that Sadaqa House is viable to be implemented in Islamic banks.

However, there are certain aspects that need further research before the implementation of Sadaqa House; especially in the aspects of laws and regulations, trust fund, the demand for Sadaqa House product or service by the public, corporate sectors, the willingness of the banks, the operations and other factors that are considered important.

Benefits of Sadaqa House to the Stakeholders

i. Islamic Banks

Islamic banks will be different from conventional banks by incorporating welfare sector. This will fulfil the objective of Islamic economics where the objective is not only focusing on profit maximization but also on the human welfare. The public will have higher trust on Islamic banks and the number of customer of Islamic banks will increase. The Islamic banks can implement Sadaqa House with a lower cost since the infrastructures are available in the current banking system. The Islamic banks can participate in helping the government to reduce poverty and to increase the economic growth.

ii. Government

Sadaqa House will reduce the burden of the government in the poverty alleviation. The government will have stronger support from the Islamic banking to develop the country and to increase the economic growth.

iii. Public

The implementation of Sadaqa House in the banking sector will encourage the public to give sadaqa. Public will have easy access to do sadaqa at any time and at any place. Since the amount of sadaqa can be as small as RM10, it will also boost the lower and middle class people to give sadaqa.

Conclusions

Islamic banks have the infrastructure and system to start with the Sadaqa House. The model proposed in this study can be a general framework in order for the Islamic banks to do further research to make the Sadaqa House as one of the Islamic banking product or service in the future. Islamic banks should step forward and incorporate the Islamic economics especially on the welfare sector for the betterment of ummah and the development of the country.

The idea of Sadaqa House as banking product or service should not be taken lightly. The future of Islamic banks depends not only upon innovating and investing in new product which are profitable but also upon satisfy the faith of stakeholders and human welfare. This study will strongly propose for the Islamic banks to look into the idea presented by Halim (2015) and to venture on how the Sadaqa House can be implemented. The proposed framework in this study clearly shows that the possibility for the implementation is positive.

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