

Musharakah Mutanaqisah Partnership as a Tool for House Financing, Its Sustainability and Issues

Authors : Imran Mehboob Shaikh, Kamaruzaman Noordin

Abstract : Musharakah Mutanaqisah or Diminishing Partnership is a derivative of Musharakah contract, which is used by Islamic banks for housing finance facility. Most of the banks offer housing finance based on the concept of Musharakah Mutanaqisah, apart from few which still offer housing finance using BBA, Tawarruq (commodity Murabahah) and Istisna. This research attempts to compare the practice of DP housing finance offered in Malaysia. This paper will further look into challenges in Musharakah Mutanaqisah practice and its sustainability as a mortgage product. In practice there are certain issues related to Musharakah Mutanaqisah also known as Musharakah al Muntaiyah bi tamlik, widely accepted and mostly used for housing finance by the Islamic banks. In Malaysia, it is in transforming stage from Bay bithamman Ajil, which is mostly used for housing finance in ASEAN region i.e., Malaysia, Indonesia and Brunei. In order to conduct this study, a discussion was carried out with few researchers who had worked on the topic previously and some Islamic bank officers attached to a full-fledged Islamic bank in Malaysia. Apart from that previous literature on Musharakah Mutanaqisah was also reviewed and various books, as well as online data, was considered for this study, and websites of different Islamic banks with information for Diminishing partnership, home financing were retrieved. This paper will highlight issues surrounding Diminishing Partnership contract and its conformity to Maqasid al Shariah (objectives of Shariah). Diminishing Partnership is widely accepted in different parts of the world and is mostly used for housing finance. The future prospect of DP is believed to be affirmative. As the product is a better substitute for BBA and most of the Islamic banks around the world have utilized their housing portfolio using the contract but at the same time, there are certain issues that need to be overcome. Even though Islamic banks are striving to sustain and compete the conventional banks but securing the customers from Gharar and other issues should be the primary objective of Islamic financial institutions.

Keywords : BBA, home financing, musharakah mutanaqisah, tawarruq

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