

Contractual Risk Transfer in Islamic Home Financing: Analysis in Bank Malaysia

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Abstract : Risk management has implications on pricing, governance arrangements, business practices and strategy. Nowadays, home financing contract offers more in the risk transfer form to increase bank profit. This is parallel with Islamic jurisprudence method al-Kharaj bi al-thaman (gain accompanies liability for loss) and al-ghurm bil ghunm (gain is justified with risk) that determine the matching between risk transfer and returns. Malaysian financing trend is to buy house. Besides, exists transparency lacking risk transfer issues to the clients because of not been informed clearly. Terms and conditions of each financing also do not reflect clearly that the risk has been transferred to the client, justifying a determination price been made. The assumption on risk occurrence is also inaccurate as each risk is different with the type of financing contract. This makes the Islamic Financial Services Act 2013 in providing standards that transparent and consistent can be used by Islamic financial institution less effective. This study examines how far the level of the risk and obligation incurred by bank and client under various Islamic home financing contract. This research is qualitative by using two methods, document analysis, and semi-structured interviews. Document analysis from literature review to identify profile, themes and risk transfer element in home financing from Islamic jurisprudence perspective. This study finds that need to create a risk transfer parameter by banks which are consistent with risk transfer theory according to Islamic jurisprudence. This study has potential to assist the authority in Islamic finance such as The Central Bank of Malaysia (Bank Negara Malaysia) in regulating Islamic banking industry so that the risk transfer valuation in home financing contract based on home financing good practice and determined risk limits.

Keywords : risk transfer, home financing contract, Sharia compliant, Malaysia

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