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Shariah Issues in Managing Household Debt: The Case of Malaysia

(Isu-isu Shariah dalam Pengurusan Pinjaman Seisi Rumah: Kes Malaysia)

Maznita Mokhtar
(International Centre for Education in Islamic Finance, INCEIF)
Azman Ismail
(IIFIN Consulting Sdn. Bhd.)

ABSTRACT

The Edge Malaysia, in its 2011 publication, projects there will be 68,000 high net worth individuals (HNWI) in a population of 19.2 million by 2015. This means there will be one HNWI for every 282 persons in Malaysia. Hence, the Islamic wealth management industry is placing greater emphasis on wealth accumulation and preservation products vis-à-vis investment funds and assets. In their chase for HNWI clientele, financial institutions seem to neglecta fundamental stage of the Islamic wealth management process, namely wealth creation. In Islam, rizq is translated as subsistence or the means to live. In their search for income to meet their livelihood, Muslims need to ensure that their household's wealth effect adhere to Shariah by linking the level of personal wealth to the spending or saving decisions. In recent years, household indebtedness in Malaysia has grown from 33% of banking sector loans in 1998 to 55% in 2011, representing 76.6% of the GDP. The cause for concern stems from the revelation that this growing pattern of debt is driven by personal consumption that is mismatched against income growth. The present paper provides an overview of the household debt situation in the Malaysia. In particular, the present study examines the concerns over the growing trend of Malaysian indebtedness from the perspective of consumers and evaluates consumer issues in seeking Islamic financing (personal and consumptive) products to meet livelihood needs. The paper offers suggestions for improvements in relevant products and development within the Malaysian wealth management landscape in light of maqasid al-Shariah.

Keywords: Household debt; HNWI; wealth creation; personal financing; consumptive financing

ABSTRAK

The Edge Malaysia dalam penerbitan 2011 menjangkakan menjelang 2015, bilangan individu bernilai bersih tinggi (HNWI) menjangkau seramai 68,000 orang dalam kalangan penduduk Malaysia seramai 19.2 juta. Ini bermakna kita akan mendapati seorang HNWI dalam setiap 282 orang di Malaysia. Justeru itu, industry pengurusan kewangan Islam member penekanan yang besar terhadap aspek penumbuhan dan pemeliharaan harta melalui produk-produk pelaburan seperti dana-dana set pelaburan. Malangnya, dalam perlumbaan untuk mendapatkan pelanggan HNWI, institusi-institusi kewangan seolah-olah telah mengabaikan peringkat asas dalam pengurusan kewangan Islam, iaitu penjanaan kewangan. Dalam Islam, terjemahan rizq adalah rezeki atau sumber kehidupan. Demi mencari rezeki, orang Islam perlu memastikan bahawa keberkesanan harta yang dimiliki yang berkait dengan cara berbelanja dan membuat simpanan adalah sejajar dengan kehendak Shariah. Mutakhir ini, kadar hutang seisi rumah di Malaysia dalam pinjaman sector perbankan telah meningkat daripada 33% pada 1998 kepada 55% pada 2011, mewakili 76.6% daripada KDNK. Kebimbangan terhadap peningkatan ini adalah kerana ia didapati berpunca daripada peningkatan dalam perbelanjaan peribadi yang tidak disokong dengan peningkatan pendapatannya. Kajian ini menggambarkan keadaan keseluruhan tahap hutang seisi rumah di Malaysia. Khususnya, ia menangani masalah tren keberhutangan yang semakin meningkat dari perspektif pengguna, dan menilai masalah yang mereka hadapi dalam usaha mendapatkan pembiayaan kewangan Islam untuk memenuhi keperluan (peribadi dan perbelanjaan) mereka. Kajian ini menawarkan penambahbaikan dalam produk pembiayaan yang berkaitan dan pembangunan dalam pengurusan kewangan di Malaysia berdasarkan maqasid al-Shariah.

Kata kunci: Hutang isi rumah; HNWI; penciptaan kekayaan; pembiayaan peribadi, pembiayaan konsumtif

INTRODUCTION

Islam is not opposed to wealth. However, Muslims are reminded that the real owner of all wealth is God and man is merely a trustee to manage God's wealth in his lifetime. Fundamentally, the Quran clearly states many times that wealth belongs to Allah. The verse "*For Allah is He Who Gives (all) sustenance…*" (Al-Dhariyat, 51: 58) clearly explains that God's "bounties" are bestowed upon individuals in abundance. Each individual's role is simply as a trustee to administer the wealth in his trust according to God's covenants.Hence, there is no repulsion in being wealthy, but a person must not allow the wealth (rather, the greed for it) to consume him or her.

Muslims plan their financial affairs with the aim of achieving *al-Falah* (success) and *Hayatan Toyyibah* (a good life). An individual's success is not a measure of material wealth, but success in gaining *barakah,* i.e.

blessings or pleasures, from the Almighty. Thus, success is measured based upon whether the individual has carried 'wealth management' responsibilities as a true *khalifah* (vicegerent). Hence, wealth is a test as quoted in *Surah Ali Imran*: *"You shall certainly be tried and tested in your possessions and in your personal selves…" (3: 186)*. Shariah and the Islamic worldview illustrate that there are pre-defined rules of permissible (*halal*) and non-permissible (*haram*) transactions. In the pursuit of wealth, Muslims may lose sight of the nature of their needs. Are they really *dharuriyyah* (essentials) and *hajiyyah* (complementary) needs or are they *tahsiniyyah* (embellishment) desirabilities as affluent Muslims join the chase towards attaining the 'millionaire' mark?

Since the 1997 Asian Financial Crisis (AFC), financial institutions in Malaysia have diversified their intermediation focus from the corporate sector towards retail financing to households and small and medium enterprises (SMEs). The shift was supported by a strengthened risk management infrastructure, such as the Central Credit Reference Information System (CCRIS). A decade later, household financing accounted for 54% of total financing provided by financial institutions, a major increase from 28.4% in 1996 (Abdul Ghani 2010). Should there be a cause for concern? Growth in personal consumption driven by debt rather than by income growth is not sustainable as such growth will be overturned with the rise of inflation and interest rates. Implications exist in regards to both monetary policy and financial stability if this pattern persists. The former is affected as household spending, which will reduce should debt levels continue to rise and be coupled with a grim economic outlook. The latter is not spared either, should if there is an increase of households defaulting on their debts. This phenomenon is currently occurring inEurope and the United States as the governments have reached the end of their debt elasticity. Household debt appears to play a key role in the financial stability of an economy.

MAQASID AL-SHARIAH

The classical concept of maqasid al-Shariah, as expounded by al-Ghazali, Ibn al-Hajib, al-Qarafi and al-Shatibi, is the protection or preservation of religion, life, intellect, progeny and wealth (Ibn Ashur 2001). Indeed the virtue of protecting four out of the five elements above is mentioned in a *hasansahih hadith* narrated by Imam Al-Tirmidhi*:*

Whoever is killed protecting his wealth is a martyr; and whoever is killed protecting his religion is a martyr; and whoever is killed protecting his life is a martyr; and whoever is killed protecting his family is a martyr.

Ibn Ashur goes a step further in regards to wealth, stating that one of the objectives of Shariah with respect to wealth is to regulate it and this does not only mean its preservation, but also its generation and just distribution (Ibn Ashur 2001). As illustrated in Figure 1, in the early 2000's, it was suggested that wealth management in Islam covers wealth creation (income), wealth generation (savings or investments)[1], wealth purification (*zakat*), wealth preservation (risk management) and wealth distribution (estate and legacy) (Ismail n.d.).

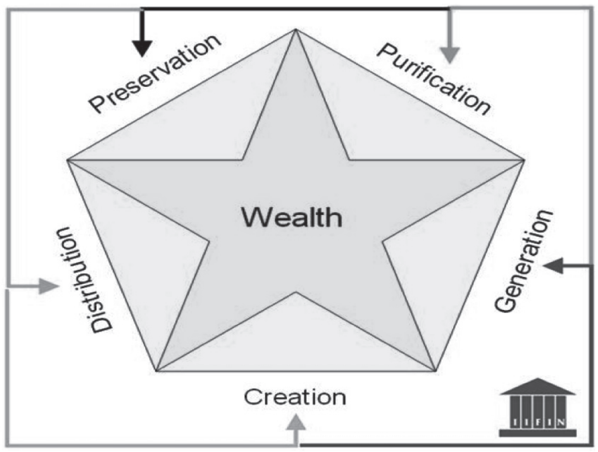


FIGURE 1. Islamic Wealth Management

Wealth Creation Ibn Ashur further states that wealth creation can be achieved through ownership and acquisition. In this respect the Prophet s.a.w. (peace be upon him) as narrated by Imam Mueatta' said:

Whoever revives a dead land, it belongs to him, and the unjust root has no right.

Wealth Generation Regarding wealth generation, the Quran (4:5) says:

Give not unto the foolish (what is in) your (keeping of their) wealth, which Allah hath given you to maintain; but feed and clothe them from it, and speak kindly unto them.

The Quran uses the word *fiha* and not *minha* to show that wealth is to be generated (Ismail, n.d.) and, in this respect, Tafsir al-Siraj al-Munir states (al-Sharbinin.d.):

Indeed Allah s.w.t said, "fiha" to make the wealth as a source of livelihood. Thus, the maintenance expense is to be from the profit and not the principal because they trade with it and get revenue from its profit what they need. If it was "minha" then the expenses would be from the wealth itself.

In this context, the Prophet s.a.w., as narrated by Imam Bukhari and Imam Muslim, said:

Whenever a Muslim plants a tree or sows a plant, and it is eaten by a bird or a man or an animal, it is charity for him.

In the same context, Imam Malik reported that Umar r.a. said:

Trade in the properties of orphans so that it will not be eroded by zakah.

To facilitate wealth generation, certain contracts containing some amount of gharar are permitted for example *mugharasah, salam, muzara'ah* and *qiradh* (Ibn Ashur 2001).

Wealth Distribution Wealth distribution involves the transfer of wealth from one person to another and the

Shariah requires that this be done through as many people as possible as the Quran (59:7) says:

…In order that it may not (merely) make a circuit between the wealthy among you…

The word 'circuit' in this verse refers to the transfer of wealth from one person to another and not restricted to only some people. The Quran makes it an obligation to distribute wealth in accordance with rules of inheritance after death and spending on obligatory expenses on the wife and family in a reasonable manner while one is alive (Ibn Ashur 2001). In the context of debt management, the Prophet s.a.w. taught Muslims to be very cautious, so much so that in the early days of Islam, the Prophet even refused to conduct the obligatory prayers on a deceased who had debts. The gravity of debts is demonstrated in a hadith narrated by Abu Hurairah r.a.:

When the body of a dead person was brought to the Prophet for prayers, he would ask whether he had any debt, and if the answer is no, he would pray. At another time another body was brought and he asked, "Has he any debt? And if the answer is yes, he will say, 'You observe Prayer for your companion'.

However, the Prophet s.a.w. later observed funeral prayer for all, but this does not mean that debts can be left unpaid as explained in another *hadith:*

The soul of the believer is kept hanging by his debt until it is paid.

Imam Al-Tirmidhi narrated another hadith which states the Prophet s.a.w. also equated the freedom from debt with the entrance to paradise,stating:

Whoever dies free of three things – arrogance, theft, and debt – then he will enter Paradise.

In another hadith narrated by Imam Muslim the Prophet s.a.w. said:

Allah forgives the martyr everything except debt.

In a similar vein, the Prophet s.a.w. was asked by a companion:

O Messenger of Allah, if I am killed in the cause of Allah, with patience and sincerity, continuing without deserting, will my sins will be blotted out?" The Messenger of Allah s.a.w. said: 'Yes, if you were patient and sincere, continue and not deserting your sins shall be forgiven except debt. That was what Jibril a.s. said.

(Muslim)

The importance of settling debts is further reiterated in the following *hadith* narrated by Imam Ahmad:

In whose hand Muhammad lies, if a man is killed in the cause of Allah, then lives, then dies in the cause of Allah, then lives, and he has a debt, he will not enter heaven until the debt is settled.

However, jurists are of the opinion that the aforementioned hadiths apply only to people that do not desire to settle their debts. If a person intends to settle his debts, but he dies in the cause of Allah before settling his debts, then his sins will be forgiven. This is in line with the following *hadith* narrated by Imam Bukhari:

Whoever borrows from others and he wants to return it, Allah will return it for him. And whoever takes it to usurp it, Allah will usurp from him.

Nevertheless, the existence of the *hadith* is to show the gravity of debt and one should aspire to settle it as soon as he can afford to do so. In this regard, the Prophet s.a.w. tried to assist Jabir r.a. to reschedule the latter's debt, but the lender refused to give way and the Prophet s.a.w. assisted Jabir in settling all his debts. The full *hadith* as reported by Jabir is as follows:

My father owed some dates to a Jew. He was killed on the day of Uhud and he left behind two gardens. The dates owed to the Jew would take up everything in the two gardens. The Prophet s.a.w. said (to the Jew), "Will you take half this year and half the next year?" But the Jew refused. The Prophet said, "Call me when it is time to pick the dates." So I called him and he arrived accompanied by Abu Bakr. The dates were weighed and picked from the lowest parts of the tree, and the Messenger of Allah was praying for blessings until we paid off everything that we owed him from the smaller of the two gardens, as calculated by Ammar. Then I brought them some fresh dates and water and they ate and drank, and he said, "This is part of the bounties about which you will be asked.

Although the last part of the *hadith* appears to imply negative elements of bounties, it is better to have wealth than to be in debt. Certainly the Prophet s.a.w. teaches to avoid debt as much as possible. People should avoid unnecessary debt and abstain from begging. Anas bin Malik reported:

A man from the helpers came to the Prophet, peace be upon him, and begged from him. The Prophet asked, "Have you nothing in your house?" He replied, "Yes, a piece of cloth, a part of which we wear and a part of which we spread on the ground, and a wooden bowl from which we drink water." He said, "Bring them to me." He then brought these articles to him and he took them in his hands and asked, "Who will buy these?" A man said, "I will buy them for one coin." He said twice or thrice, "Who will offer more than one coin?" A man said, "I will buy them for two coins." He gave these to him and took the two coins and, giving them to the Ansari, he said, "Buy food with one of them and hand it to your family, and buy an axe and bring it to me." He then brought it to him. The Messenger of Allah fixed a handle on it with his own hands and said, "Go, gather firewood and sell it, and do not let me see you for a fortnight." The man went away and gathered firewood and sold it. When he had earned ten coins, he came to him and bought a garment with some of them and food with the others. The Messenger of Allah, peace be upon him, then said, "This is better for you than that begging should come as a spot on your face on the Day of Judgment. Begging is right only for three people: one who is in grinding poverty, one who is seriously in debt, or one who is responsible for compensation and finds it difficult to pay.

(Abu Daud)

Although being in debt is permitted, the lender should not take advantage of the circumstance. As such, it is better to give grace to the borrower. In this respect, the Prophet s.a.w. said in a *hadith* narrated by Imam Muslim:

A man from the time before you was called to account and nothing good was found with him except that he was easy-going in his business with people and he would order his servants to be lenient with those in difficult circumstances. Allah the Exalted said: We are more worthy of such actions, so pardon his sins.

In another parable, Imam Bukhari narrated that the Prophet s.a.w. said:

A man used to give loans to the people and he would say to his servant: If the debtor is poor you should forgive him so that perhaps Allah may forgive us. So when he met Allah, Allah forgave him.

The teachings of the Prophet s.a.w. are the basis for the resolution issued by the International Association of Islamic Banks (IAIB) in 1990, which states the purposes of Islamic banks are as follows[2]:

The Islamic banking system involves a social implication, which is necessarily connected with the Islamic order itself, and represents a special characteristic that distinguishes Islamic banks from other banks based on other philosophies. In exercising all its banking or developmental activities, the Islamic bank takes into prime consideration the social implications that may be brought about by any decision or action taken by the bank. Profitability – despite its importance and priority is not therefore the sole criterion or the prime element in evaluating the performance of Islamic banks, since they have to match both between the material and the social objectives that would serve the interests of the community as a whole and help achieve their role in the sphere of social mutual guarantee. Social goals are understood to form an inseparable element of the Islamic banking system that cannot be dispensed with or neglected.

Therefore, Islamic banks should try to assist genuine borrowers to settle their debts early and not put them in greater debt. Islamic banks have the capacity and capability to separate genuine borrowers from disreputable ones and should have no problem in establishing a mechanism to achieve the noble aims expounded in the resolution above. In addition, Islamic banks are recommended to develop relevant products for their customers.

IS MALAYSIAN HOUSEHOLD DEBT DRIVEN BY MACRO POLICIES? AN EMPIRICAL STUDY

Bank Negara Malaysia (BNM) is targeting a growth rate between 4% and 5% in 2012 following a 5.1% expansion in 2011. Since private consumption has been a major contributor to GDP growth in the past decade, it is viewed to continue to be a key support factor within the overall economy. However, one of the major macroeconomic challenges is to keep household debt in check. As reported in the Edge Malaysia (2012), household indebtedness has grown sharply in Malaysia in recent years, from as low as 33% of banking sector loans in 1998 to 55% in 2011. Household debt presented reflects 76.6% of GDP in 2011 (2010: 75.8% of GDP). The authorities maintain that there is no cause of alarm based on the following reasons: (1) growth in household debt corresponds with an expansion in household financial assets; (2) strong financial buffers exist due to a high proportion of liquid and near liquid assets; and (3) households are able to service their debts due to favorable income and employment conditions.

Nakontharb (2010) attributes the rise in household indebtedness in advanced countries during the past two decades to four factors: (1) the macroeconomic tranquility during the Great Moderation period,[3] where strong growth, low inflation and low macroeconomic volatility led to confidence in future income prospects and higher risk appetites; (2) the easing of credit constraints due to financial deregulation and financial innovations; (3) the decline of interest rates (nominal and real) related to (1) and (2) above, which led to reduced initial loan repayment ratios and real funding costs for banking and household sectors; and (4) the hikes in real house prices that encouraged the acquisition of properties and further borrowing.

LITERATURE REVIEW

As far as research on Malaysian household debt is concerned, extant literature is limited. Endut and Toh (2009) analyze the implications of monetary policies and financial stability of household credit in Malaysia on data from 1997 to 2007 by way of comparative illustrations and trends without any empirical analysis. Abdul Ghani (2010) considers Endut and Toh's analysis and goes a step further, applying an OLS regression to examine the determinants of household NPL based upon quarterly data from 2000:Q2 to 2008:Q4, the explanatory variables being household indebtedness; average lending rate; debt repayment ratio; inflation rate; and GDP (Nakontharb 2010).

Across the border, Siripanyawat et al. (n.d) study policy implications on Thailand household credit, comparing data from before the AFC until after the 2007-2008 Global Financial Crisis (GFC). Compared to the Malaysian studies, the Thailand study produced greater amounts of empirical findings. First, an OLS regression is applied to explain household debt as a function of various household characteristics (age of household's primary earner, education level, and home ownership). Second, via an error-correction model (ECM), the rise of consumer loans is found to be associated with the good economic state, farm price, the house price and the lag of consumer loan, in line with the permanent income theory. Third, a separate ECM explains that a rise in real interest rates, the consumer loan and the unemployment raises the NPL ratio; whilst a rise in real GDP lowers the NPL ratio.

Regionally, Nakontharb (2010) finds that even though real household debt during the period of 2003 to 2008 is considered high, with an average CAGR of 16%, real household debt as a proportion of economic growth is steadily maintained in Korea, Malaysia, Taiwan, Thailand and Vietnam. The period was also dubbed as the "Great Recovery" after the 1997 financial crisis. Other than the robust economic growth, trends and analyses showed that the other macroeconomic factors are strengthening including the increased willingness of bank lending and easing out of overall credit constraints, downward trend of real lending rates, and rise in real house prices, across the region. However, empirical results from the OLS regression differ slightly, revealing that despite strong economic growth and falling real interest rates in six sample countries, rising inflation and nominal lending rates manage to refrain increases in household indebtedness, while real house prices prove to be an insignificant variable in the model.

From Western perspectives, Nieto (2009) finds the main long run factors behind changes in Spanish household credit to be long-run household expenditure, gross wealth, repayment terms and the cost of loans and unemployment rate, while the short-term factors are changes in long-term interest rate and employment levels. The research by Tudela and Young (2005) outlines the effect on households' debt and balance sheets of changes in interest rates, house prices, preferences and retirement income. Duygan-Bump and Grant (2008) study the supply side of European household loans and find that while adverse shocks, such as unemployment or loss of income, are important, the extent to which they affect household debt repayment depends crucially on the penalty for defaulting. The study highlights the role of institutions in household debt levels.

RESEARCH METHODOLOGY AND RESULTS

An empirical study is conducted to determine the determinants of household debt in Malaysia. This is accomplished by employing a linear OLS regression analysis (Mokhtar 2011), which is followed by applying a time series approach to overcome the shortcomings of the OLS regression method[4] through the use of cointegration, a vector error-correction model and variance decomposition. The 60 observation points for the present study are obtained from quarterly data from 1997: Q1 to 2011: Q4, retrieved from Datastream. Variables tested in the error-correction model are Malaysian statistics concerning Gross Domestic Product, inflation rate, consumer expenditure, household liabilities, house price index and lending rate, as described in Table 1.

Choosing the vector auto regression (VAR) of order 2, the Johansen cointegration test reveals that at least 3 cointegrating vectors exist among the variables (Table 2). This is no surprise considering these variables are macroeconomic in nature and are cointegrated with each other. However, to continue with further tests on causality, a cointegration vector to 1 is applied.

Economic theories support the inter-relatedness of the variables. The "wealth effect" links the level of personal wealth and households' decisions related to savings and spending. Franco Modigliani's life cycle hypothesis of consumption theorizes that consumers smoothen out their consumption over time (Mishkin 2010). What actually determines consumption is people's lifetime income resources, of which financial wealth (common stocks) is a major part. Wealth in equity here can be applied to the housing market as well. Tobin's q theory explains how monetary policy can affect the economy through its effects on the valuation of equities (stock), where q is defined as the market value of firms divided by

TABLE 1. Variables Used and Their Description

Variable	Data description	Abbreviation*
GDP	Malaysia, Gross Domestic Product, expenditure approach, at RM current prices	LGDP
Inflation rate	Malaysia, Consumer Price Index (2010 = 100), which reflects the change in the cost of acquiring a fixed basket of goods and services. The weights are derived from household expenditure surveys.	LINF
Consumer expenditure	Malaysia, Private final consumption expenditure at current RM values	LHCONS
Household liabilities	Malaysia loans, liabilities of the household sector at current RM values	LHDEBT
House price index	Malaysia, House price index (2000 = 100)	LHPI
Interest rate	Base lending rates (BLR) represent the average lending rates that financial intermediaries quote to their best customers. Between 1 November 1995 and 26 April 2004, the quoted BLR has been subject to a ceiling rate set by the BNM, using the computed BLR formula. Average BLR = simple average of BLRs; ceiling BLR = single rate calculated based on the BLR formula. Effective from 26 April 2004, the BNM removed the BLR ceiling. Each banking institution announces its own BLR based on its cost structure and business strategies.	LBLR

Note: The final variables which are found stationary for Engle and Granger (1987) cointegration are LGDP, LINF, LHDEBT, LHPI and LBLR. *The log form has been used for all the variables to achieve stationarity in variance.

TABLE 2. Cointegration Test of Johansen ML Results for Multiple Cointegrating Vectors

Null	Alternative	Statistic	95% Critical Value	90% Critical Value
		Maximal Eigenvalue		
r = 0	r = 1	62.7089	37.86	35.04
r<= 1	r = 2	33.2874	31.79	29.13
r<= 2	r = 3	31.9981	25.42	23.1
r<= 3	r = 4	11.5792	19.22	17.18
		Trace		
r = 0	r>= 1	144.5559	87.17	82.88
r<= 1	r>= 2	81.847	63	59.16
r<= 2	r>= 3	48.5596	42.34	39.34
r<= 3	r>= 4	16.5615	25.77	23.08
Rank	Maximized LL	AIC	SBC	HQC
r = 0	741.7484	706.7484	670.6906	692.7031
r = 1	773.1028	728.1028	681.7428	710.0447
r = 2	789.7465	736.7465	682.1448	715.478
r = 3	805.7456	746.7456	685.9625^h	723.0693
r = 4	811.5352	748.5352	683.6312	723.2538^h
r = 5	814.0263	749.0263^h	682.0619	722.9423

Note: ^{h} represents the highest value of the respective criterion.

TABLE 3. Long Run Structural Modeling (LRSM) of ML Estimates Subject to Exact and Over-Identification

	Exact identification	Over-identification			
LGDP	-0.26389	0	0	0	0
	(0.14568)	(none)	(none)	(none)	(none)
LINF	-1.5447	-2.0511	0	0	0
	(0.49587)*	(.52494)	(none)	(none)	(none)
LHDEBT	1	1	1	1	1
	(none)	(none)	(none)	(none)	(none)
LHPI	0.00157	0.02830	-0.15746	0	0
	(0.04986)	(.05925)	(.05941)	(none)	(none)
LBLR	-0.14237	-0.26727	-0.31807	-0.60066	0
	(0.26602)	(.31166)	(.39483)	(.43376)	(none)
Trend	-0.00584	-0.00764	-0.01478	-0.01590	-0.02136
	(0.00326)	(.00365)	(.00367)	(.00401)	(.5501E-3)
Log Likelihood	773.103	771.909	764.949	761.291	760.292
Chi-Square	None	2.3876	16.3085	23.6231	25.6215
		[.122]	[.000]	[.000]	[.000]
Result (reject/ accept the restriction)		*Accept*	*Reject*	*Reject*	*Reject*

Note: * indicates significance at the 5% level or less. Standard errors are in parentheses ( ). P-values are in brackets [ ].

the replacement cost of capital. High q stimulates new investments by firms as market value is relatively high compared to the replacement cost of capital (Mishkin 2010). Monetary transmission mechanisms refer to both the wealth channel and Tobin's q channel to describe how increases in house prices, which raise their prices relative to replacement cost, lead to a rise in Tobin's q for housing, thereby stimulating economic production. At the same time, rises in land and housing prices increase wealth increase consumption. Later in the 1990s, newer transmission mechanisms incorporated the asymmetric information problem in financial markets revealing credit view channels, which operate through both bank lending and the balance sheets of firms and households to stimulate consumption and economic growth.

Long run structural modeling (LRSM) is used to test the causal relationship between household indebtedness, GDP, inflation, house price index and lending rates. When the variable of interest, i.e. LHDEBT, is normalized by imposing the exact identification of unity for its coefficient, only the variable LINF is found to be significant, a rather confusing result. Moreover, when over-identification restrictions are imposed, the variable LGDP is found to be insignificant. However, since omitting GDP from the variables would be a counter-intuitive measure, it is generally accepted that GDP growth relates to a booming economy, a rise in consumer confidence and consumer spending.

Next, the vector error-correction model (VECM) technique is applied to determine whether the variables are exogenous (leader) or endogenous (follower). The results showed that LGDP, LINF, LBLR are exogenous (leaders), whereas LHDEBT and LHPI are both endogenous variables (followers). The significance of the error correction term in both the LHDEBT and LHPI equations implies that household debts and house price indices lag behind (and to be tested whether they are caused by) economic growth, inflation rates and lending rates, which is consistent with economic theory. Monetary authorities may use interest rates or price level targeting as intermediate stabilization tools to spur consumption in illiquid assets, such as houses and consumer durables. It is also evident that GDP is the driver that the household liability and home price indices respond to, which is explained by the wealth effect. Economic growth indicates increased wealth and the implied reduction of financial distress among households and firms encourage asset purchases via debt/financing.

The generalized variance decomposition (VDC) technique is then applied to rank the variables in order of exogeneity, which is illustrated by the proportion of variance from the variable's own past. The out-of-sample results are somewhat consistent with the within-sample VECM results above, where the macroeconomic factors of GDP, interest rates and inflation rates drive the household debt levels and house price indices.

Both the VECM and VDC analyses in the present study indicate that GDP, inflation rates and bank's lending rates are the leading variables that household debt and house prices follow. In the short run, the VECM shows that inflation leads in the earlier horizons up to two years, followed by BLR and GDP, interchanging the order between them. From 3 years onwards, GDP becomes the most exogenous variable. As for the endogenous variables, household debt lags behind house price index in the short term, but their positions are reversed from the third year onwards. The graphical illustrations of the VDC analysis paint a similar picture (Table 5).

As predicted, household debt and house price index are the most sensitive to a shock on the other variables. Household debt is impacted sharply in the short term and seems to take approximately 5 years to resume equilibrium after short-term volatility. The house price index, on the other hand, reacts gradually, growing at a decreasing rate over a period greater than 7 years to reach a new equilibrium plateau. The exogenous variables bank's lending rates and inflation rates, which show the least change in response to the shock on the other variables,

TABLE 4. Vector Error Correction Model (VECM), ECM Estimated by OLS Based on Cointegrating VAR (2)

Dependent variables	ΔLGDP	ΔLINF	ΔLHDEBT	ΔLHPI	ΔLBLR
ΔLGDP1	0.09376	0.036702	0.52325	0.09096	0.037717
	(0.13952)	(0.026833)	(0.11049)	(0.053998)	(0.047149)
ΔLINF1	-0.26328	0.07423	-0.55789	-0.14062	-0.17154
	(0.74916)	(0.14408)	(0.59329)	(0.28994)	(0.25317)
ΔLHDEBT1	-0.29216	-0.0091043	0.077179	-0.087755	-0.020428
	(0.14196)	(0.027301)	(0.11242)	(0.05494)	(0.047972)
ΔLHPI1	-0.04144	0.022514	0.99211	0.35324	-0.10338
	(0.36411)	(0.070026)	(0.28835)	(0.14092)	(0.12305)
ΔLBLR1	0.44304	0.014507	0.20151	0.17942	-0.34219
	(0.50829)	(0.097756)	(0.40254)	(0.19672)	(0.17177)
ECM(-1)	-0.026684	0.012754	-0.49296*	0.17849*	0.047377
	(0.14582)	(0.028044)	(0.11548)	(0.056435)	(0.049277)
	13.1707	3.3800	11.5988	2.3336	2.3217
CHSQ SC(4)	[.010][d]	[.496]	[.021]	[.674]	[.677]
	2.7884	0.70087	.50066	4.6748	0.28279
CHSQ FF(1)	[.095]	[.402]	[.479]	[.031][d]	[.595]
	3.1070	22.6743	5.1815	14.2230	18.902
CHSQ N(2)	[.078]	[.000]d	[.075]	[.001][d]	[.000]
	0.44696	9.3042	0.14953	0.3058	1.8410
CHSQ Het(1)	[.800]	[.002][d]	[.699]	[.580]	[.180]

Note: * indicates significance at the 5% level or less.[d]indicates the presence of a diagnostic problem. SC = serial correlation, FF = functional form, N = normality, and Het = heteroskedasticity.

TABLE 5. Variance Decomposition (VDC) from Generalized Variance Decomposition Analysis

Horizon		Percentage of Forecast Variance explained by changes in: LGDP	LINF	LHDEBT	LHPI	LBLR
4	ΔLGDP	80.09%	0.16%	1.78%	7.91%	10.07%
8		79.86%	0.13%	1.66%	8.58%	9.76%
12		79.81%	0.12%	1.60%	8.83%	9.64%
20		79.77%	0.12%	1.53%	9.04%	9.54%
4	ΔLINF	4.43%	88.71%	4.69%	0.13%	2.03%
8		7.01%	81.49%	7.60%	0.35%	3.56%
12		8.77%	76.08%	9.76%	0.71%	4.68%
20		10.82%	69.42%	12.38%	1.32%	6.05%
4	ΔLHDEBT	19.27%	1.54%	47.21%	18.24%	13.74%
8		19.95%	1.51%	45.26%	18.85%	14.43%
12		20.09%	1.50%	44.85%	18.99%	14.58%
20		20.14%	1.50%	44.70%	19.03%	14.63%
4	ΔLHPI	3.53%	0.70%	22.85%	58.18%	14.74%
8		7.19%	0.87%	26.99%	48.53%	16.42%
12		9.08%	0.94%	28.52%	44.46%	17.00%
20		10.78%	0.99%	29.69%	41.12%	17.41%
4	ΔLBLR	15.50%	0.32%	0.72%	2.87%	80.60%
8		16.74%	0.37%	0.93%	2.49%	79.47%
12		17.32%	0.39%	1.07%	2.40%	78.83%
20		17.87%	0.41%	1.24%	2.36%	78.11%

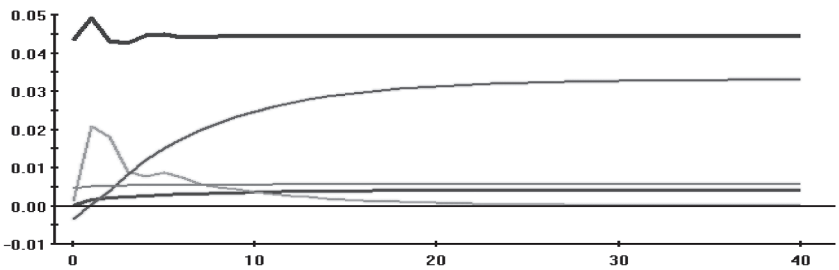
Note: The shaded cells indicate the forecast error variance explained by each variable's own shock.

barely shift from the original equilibrium. Although GDP also shows a steady line in response to other shocks, it is impacted in at least 1 or 2 horizon periods (three or six months), before moving back to equilibrium after a 15-month period.

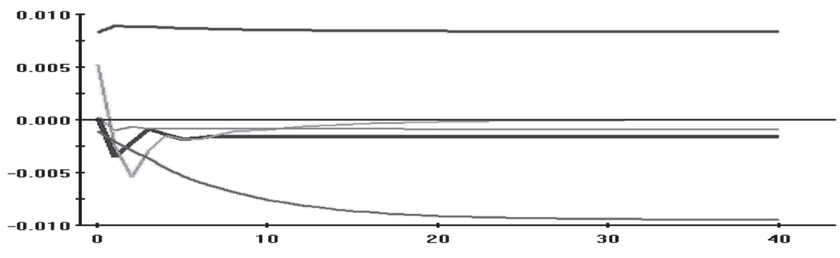
From the impulse response functions (IRFs), the graphical results in Figure 2 are consistent with the generalized variance decomposition results reported in Table 5since both are based upon information obtained from the moving average (MA) representation of the original VAR model.[5] Policy-wise, the present empirical study reveals that interest rates and price-level targeting are effective tools that can be used to monitor the level of private liabilities in the economy. The impulse response

Generalized Impulse Responses to one SE shock:

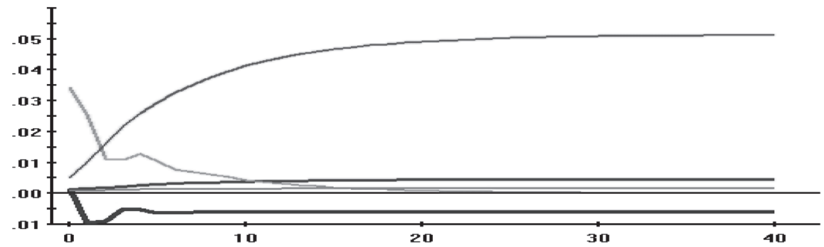
Panel A. Shock to equation for LGDP



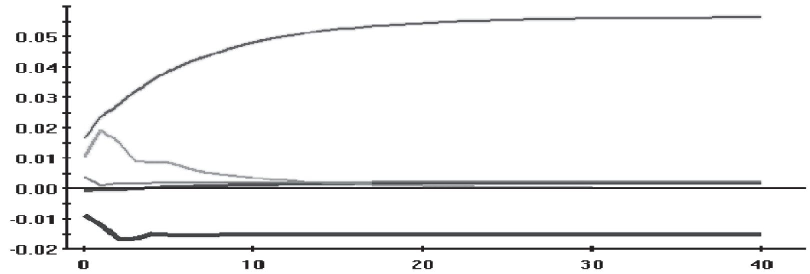
Panel B. Shock to equation for LINF



Panel C. Shock to equation for LHDEBT



Panel D. Shock to equation for LHPI



Panel E. Shock to equation for LBLR

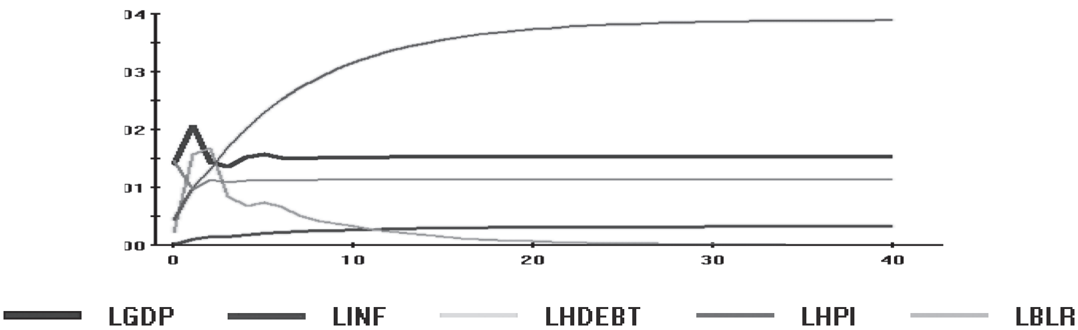


FIGURE 2. Impulse Response Functions (IRFs)

function (IRF) on a shock in the equation of LINF (Panel B in Figure 2) implies that higher inflation jolts household debts to lower levels, but this is only an immediate short-term reaction and is not maintained in the long run. The effect of increasing prices on the house price index is a gradual decrease over a few years reflecting a lagged property market cycle. The sharp immediate impact on household debt stems from the fact that private liability is also attributable to the acquisition of other consumer durables, such as cars or luxury goods, and not just homes or properties.

The negative repercussions of lowering debt levels may also include reduced household indebtedness, which may be accompanied by lower economic growth over a certain period. This can also be seen from the impulse response function to a shock to the household debt equation in Panel C of Figure 2). The persistence profile traces out the effects of a system wide shock on the variables. The results indicate that it would take approximately 15 periods or 3.75 years for the cointegrating relationship to regain equilibrium following a system-wide shock, for instance, from a global financial crisis as illustrated in Figure 3.

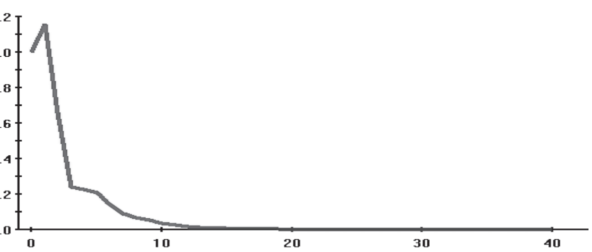


FIGURE 3. Persistence Profile of the Effect of a System-Wide Shock to the Cointegrating Vector

ISSUES: CONSUMER'S PERSPECTIVE

Many Islamic banks turned the financial crises into a business opportunity, claiming or even promising transparency; and just and ethical practices to distinguish themselves from Western banks tainted with scandals.

Islamic finance is seen to be "legally" different from its conventional counterpart as it is bound by Shariah rules, which prohibit unfairness, injustice and manipulation. However, Islamic finance needs to attain an even higher moral level to attain the *maqasid al-Shariah* and not merely work around the legality of matters.

The Shariah reputation of Islamic financial institutions has also wavered in the recent cases of Bank Islam Malaysia, Dubai Islamic Bank and Goldman Sachs' newly released Sukuk and Investment Dar, to name a few. Hence, hiding behind the veil of religion does not elevate them to a scandal-free status. In fact, from the *maqasid al-Shariah* point of view, it is more harmful to portray "good behavior" when in reality many areas are *zulm* (unjust) to the consumers, such as the use of profit equalization reserves to smoothen out returns and the lack of transparency in consumers' investment accounts.

When it comes to awarding financing facilities, selection based on creditworthiness and having collateral do not meet the essence of *maqasid al-Shariah.* The bank's risk management priority overlooks the needs of lower income groups, not to mention micro-entrepreneurs. There is certainly a room for a more equitable distribution of Islamic funds, especially to meet productive economic needs.

A case study by Mohamad et al. (2011) assesses the factors that affect consumers in adopting Islamic home financing products offered by Islamic banks in Malaysia. Product features are found to be the main factor (favorable credit terms to the customer, service efficiency, especially after hours, and the use of hassle-free electronic services). Islamic banks play a role in consumer decisions concerning the banks' home financing product offering (the influence of banks' personnel, product packaging, and marketing strategies). Race and religion are found to be insignificant in consumer awareness of Islamic home financing products in studies by Sudinet al. (1992) and Gerard and Cunningham (1997). In spite of the increasing trend of Islamic banks' home financing over the ten year period of 2001-2009, Mohamed et al. (2011) observes a low adoption level of Islamic financing, including home financing, from the Muslim majority in Malaysia.

HOME FINANCING

Islamic home financing has been a popular topic for research since its product offerings in Malaysia in the form of *Al-Bai' Bithaman Ajil* (BBA), or property financing by deferred payment, in 1983, with the establishment of Bank Islam Malaysia Berhad (BIMB). Interest in this product among researchers grew, especially due to the large number of court disputes related to this contract. Out of the 3,350 *muamalat* cases registered in the Kuala Lumpur High Court alone, from January 2003 until January 2010, about 90% were cases related to BBA contracts. Well-known cases, to name a few, include *Tan Sri Abdul Khalid bin Ibrahim v Bank Islam Malaysia Berhad* [2009] 1 LNS 980, *Affin Bank Berhad v Zulkifli bin Abdullah* [2006] 1 CLJ 438 and *Bank Islam Malaysia Berhad v Azhar bin Osman cases* [2010] 5 CLJ 54. These cases questioned the Shariah compliance of the BBA contract; challenged its legality under the IBA (1983); raised the issue of applying*bay' al inah* and its implied back door *riba*; and revealed the discrepancies in the judgment sum in the various cases (Yaakub 2011).

The treatment of *ibra'* (rebate) is another point of contention. Under the floating rate BBA mechanism, the profit rate in the property sale agreement by the bank is the ceiling rate.Hence, should the profit rate (a.k.a. interest rate) at the prevailing time fall below this ceiling rate, the bank calculates the difference as the discount. *Ibra'* or discount is granted to the customer upon early settlement at the bank's discretion, a discretion usually exercised based on the customer's creditworthiness as a reward for keeping a good track record on its credit account. Bank Negara Malaysia's Shariah Advisory Council's Resolution no. 88 states that the practise of *ibra'* is important to maintain competitiveness of Islamic banking.

However, the *ibra'* calculation has not been stipulated as a standard formula in the legal documents, unlike in conventional contracts. Many instances exist where *ibra'* has not be properly calculated in the financial statements, especially in litigation cases. In cases such as *Affin Bank v Zulkifli Abdullah [2006] 1 CLJ 438*, *Malayan Banking Berhad v Ya'kup bin Oje & Anor [2007] 6 MLJ 389* and the more recent *Bank Islam Malaysia Bhd v Azhar Osman & Other Cases [2010] 5 CLJ (para 9, 10 dan 22)*, the Court consistently decided that *ibra'* was to be provided to the customer (defendant) as the Bank (plaintiff) was not entitled to the unearned profit (Azahari 2011). Most of the cases where no proper application of granting *ibra'* occurs are those of forced settlement, i.e., abandoned projects. Due to the lack of a proper formula to calculate *ibra',* the Court applies equitable principles based on the actual financing amount disbursed instead of the total Selling Price.

Hence, the *Musharakah Mutanaqisah* Partnership (MMP), the diminishing partnership concept for home financing which had been widely practiced outside South East Asia, was a welcome change in the Malaysian landscape. The first bank to introduce this concept was Kuwait Finance House (KFH) Malaysia Bhd. in 2007, followed by RHB Islamic Bank in 2008. However, the MMP structure also has its fair share of issues, but such issueshave yet to be brought before the courts.[6] The MMP model is based on a shared ownership where one party (the bank) gradually diminishes its share of ownership as it receives monthly instalments from the customer. At the same time, the customer is also the lessee who leases the bank's portion of the property.

The measure of justice and fairness arise when default occurs, either from the non-payment of the customer, the breach of facilities' terms and conditions or bankruptcy. In this respect, recourse seems to be advantageous to only one party: the financier. Most banks in Malaysia use the *wa'd* (promise), in the form of a purchase undertaking clause, as a recourse, whereby the customer promises to buy the bank's outstanding share of ownership. Should default occur, the MMP is terminated and the customer is legally obliged to buy the bank's entire ownership share, settling the outstanding amount in full, which includes the bank's outstanding share, outstanding rental fees and other fees. Should the customer fail to honor this purchase undertaking, the bank proceeds to auction the property to the highest bidding third party, the proceeds of which will be used to compensate the bank for fees or charges incurred during the course of legal action and property disposal, and all amounts due related to monthly rental payments and outstanding facility amount. Any deficiency is to be covered by the customer (or surplus to be received) (Mokhtar et al. 2012). This one-sided protection creates further indebtedness for the financially-stressed customer.

In Shariah, the two different categories of defaulters – *mumatil* (defaults by choice, even though he can afford to pay) and *mu'sir* (defaults because he is in true financial distress) – should be treated differently. The latter should be given a grace period for settlement rather than immediately taken for legal action. Furthermore, to charge them penalties in their dire situation constitutes *ribajahiliyyah*.

Other than the use of the *wa'd*, the bank can protect itself via a trust deed, holding the asset as manager and trustee, as practiced by Kuwait Finance House (Malaysia) Berhad (Mokhtar et al. 2012). Sale proceeds are shared between the MMP partners after deducting outstanding rental and legal fees based on the latest share ownership ratio between the parties. Hence, the bank is not guaranteed an amount equal to its outstanding share of the property, a feature that may not augur well with banks, which are risk averse by nature.

PERSONAL FINANCING (LOANS) AND CREDIT CARDS

The use of credit cards and personal financing instruments for purely consumptive purposes is not in line with the Shariah as demonstrated in the Quran (17: 26-27),where it is stated:

> …Squander not (your wealth) in the manner of a spendthrift. Verily spendthrifts are brothers of the Evil ones; and the Evil one is to his Lord (himself) ungrateful.

According to Ibn Kathir, the 'brothers of the Evil ones'refers to brothers in extravagance; foolishness; failing to obey Allah; and committing sins. Following the analysis of the statements of the Prophet's companions and followers, the conclusion reached by Ibn Kathir is as follows (Ibn Kathir 1999):

> Ibn Mas'ud said: "This refers spending extravagantly when it is not appropriate.'' Ibn `Abbas said likewise. Mujahid said: "If a man spends all his wealth on appropriate things, then he is not a spendthrift, but if he spends a little inappropriately, then he is a spendthrift.'' Qatadah said: "Extravagance means spending money on sin in disobeying Allah, and on wrongful and corrupt things.''

Although Ibn Kathir cites few verses of the Quran relating to consumption, the analysis stresses the importance of not indulging in extravagance of various kinds in more than twenty places based upon interpretations of verses in the Quran (ibid). IbnAshur said that the people of Madyan were astounded when Prophet Shu'ib attempted to restrict their dealings, thus they rebuffed and ridiculed him (Ibn Ashur 2001) as mentioned in the Quran (11: 87):

> They said: "O Shu'aib! Does thy (religion of) prayer command thee that we leave off the worship which our fathers practiced, or that we leave off doing what we like with our property? Truly, thou art the one that forbeareth with faults and is right-minded!".

Ibn Ashur further argues that although spending on luxuries is permitted for those who can afford it, the Shariah does not encourage it because wastefulness will result in financial disorder (Ibn Ashur 2001). Therefore, the use of credit cards and personal financing instruments must be viewed from this perspective. The purpose of the credit card is to facilitate the circulation of wealth through transactions, which is encouraged by the Shariah, but its wanton use for extravagance is discouraged or prohibited. In this respect, Imam Bukhari narrated that Ibn Abbas said:

> Eat what you wish and wear what you wish, as long as you avoid two things: extravagance and arrogance.

In a similar vein, Imam Al-Tirmidhi narrated that the Prophet s.a.w. said:

> The Son of Adam will not fill a pot worse for himself than his stomach. It is enough for the Son of Adam to eat a few bites that strengthens his spine. If he likes to have more, then let him fill a third with food, a third with drink and leave a third for his breathing.

Furthermore, the underlying principle of both credit cards and personal financing instruments is controversial, either *bai' al 'inah* or *tawarruq*. *Bai' al 'inah* is prohibited by the majority of jurists because it is a legal ruse to legitimize *riba*' (Securities Commission 2007), whilst the *tawarruq* is prohibited by the OIC Fiqh Academy because it is a deception to get cash (ISRA website). The permission to use these two principles is based on the premise that there is no other principle that can be used to assist the client (Hasan 2009). If this is the basis, then it should only be used under *dharurah* or *hajah* and not *tahsiniyyah* purchases.

PROPOSED IMPROVEMENTS

Household debts are mostly impacted by financing (loan) products, whilst the impact of deposit products is negligible since debts are a result of borrowings. Thus, this study proposes improvements which mostly relate to financing products and, in this respect, it is noted that Islamic banks, or any bank for that matter, rely heavily on consumptive products and not products for production.

Productive Financing

Although financing for production may be seen as having higher risks, the coefficient of risks may be lower as genuine business owners would not want to purposely fail in their ventures. Furthermore, this additional risk may be arrested with a phased restructuring, whereby efficient risk management processes and procedures are in place. Depending on the risks facing each individual Islamic bank, the proportion of productive financing may be increased by a percentage lower than 100% or, in some cases, double or triple the proportion within a defined period. However, it is important is to balance between the increase in productive financing with the corresponding increase in risks. Islamic banks can increase their financing products for production so that their capital adequacy ratio is reduced to double the minimum requirements under the Basel rules. In this respect, a list published by the Asian Banker (2011) indicates that five Islamic banks in Malaysia would be deemed capable of marginally increasing their proportion of productive financing.[7] However, it is expected that most of these banks would still need to provide more debt financing instruments rather than equity financing instruments, although the latter is seen to be more desirable from the perspective of the Shariah.

Consumptive Financing

In the area of consumptive financing, credit cards bring the highest margin of profit to banks, especially if they are based on *bai' al 'inah* or *tawarruq* or other principles that do not require full payment and permit the compounding of charges to the unpaid balance. However, credit cards also have the highest risk since there is virtually no collateral. In this regard, individual Islamic banks would be able to determine the expected coefficient of risk, thus preventing them from taking advantage of confounded consumers. Educational roadshows on the proper use of credit cards conducted by the Islamic banks could be supplemented with reasonable and practical preventive measures, such as limiting their spending on consumer goods.

Personal Financing

This is another product of high margin of profit for Islamic banks. Again, Islamic banks should review their processes and procedures to only encourage financing under the category of *dharurah* and *hajiyyah*, while only providing financing under the category of *tahsiniyyah* to those who have ample cash-flow based on historical experience and post evaluation. The rationale for the financing of the latter is that Islam permits*tahsiniyyah* to the middle-class who can afford it, but does not actively encourage it (Ibn Ashur 2001).

Long Term Financing of Fixed Assets

With respect to the long term financing of fixed assets, a periodic review to the tenure is necessary. In addition, a review of the *ibra*' policy is necessary. Under the current rules, Bank Negara Malaysia permits Islamic bank to give rebates for early settlement based on the ceiling rate of profit.[8] However, the permission of Bank Negara Malaysia should not be viewed as an encouragement since it needs to provide as much flexibility as possible to the Islamic financing providers. On the other hand, the Islamic banks, playing their social role, should calculate the early settlement rebate based on actual conventional rates or just slightly higher. The difference between the ceiling profit rate and current interest rate is significantly high, thus at the disadvantage of consumers who want an Islamic alternative of financing. The issue associated with risk and administrative expenses should not arise, as they are not considerable. Ideally, Islamic banks should use the straight-line method in computing the settlement and the 'principal'/'profit' portion as this will provide long-term stability, although it may be slightly disadvantageous in the short term. The computation using the straight-line method is especially relevant if the Islamic bank is using deposits based on principles other than *wadi'ah yaddhamanah* and *qardh.* Many are not aware that this is against the principles of the Shariah. A legal maxim says (Ali Haidarn.d.):

The follower follows.

Although the traditional example of this maxim is the sale of fetus in the womb, it is nevertheless applicable and relevant to our discussion since a legal maxim is applicable to all jurisprudential categories (Ali Nadwi 1994).

Regulatory Support

Prudential measures could be employed by the central bank, such as imposing stricter loan-to-value ratios on the purchase of second residential properties. Moreover, in areas where there is a risk of a developing property bubble, regulatory bodies could set higher capital charges in the computation of risk weighted assets. An effective measure may be placing limits for certain classes of lending, namely unsecured personal lending and credit card advances (The Edge 2012).

CONCLUSION

Without doubt, financing is the *modus operandi* for the growth of productive and economic activities. Household indebtedness has also become the way of life as households acquire assets, especially homes and cars for personal utility, and, in some instances, for the accumulation of property in the millionaire race. Debt financing is allowed by Shariah, including instruments such as the BBA that offer fixed return with a capital guarantee, as it is technically a deferred payment sale with an increase in price. However, Islamic finance seems to stumble on the legality and documentation, quite often where the structure and form of the products have changed/ differed from conventional products, but the substance has not. Hence, integrity is compromised. This is the missing link in efforts to meet the *maqasid al-Shariah*. In balancing out the *maslahah* (benefits) from the *mafsadah* (evil, corruption), issues still exist that are evidently *zulm* (unjust) to the consumers.

Empirically, the present study demonstrates that household indebtedness is indeed a follower of GDP, inflation rates and financing rates. Since GDP growth increases consumption, both consumptive growth and productive financing growth are explained by the "wealth effect". Islamic banks and financiers have marketed themselves to the public as Shariah solution providers for households to manage their debts. Moreover, home financing by financial institutions increased from 28.4% of total financing in 1996 to 54% in 2006. The cause for concern here is whether household indebtedness is driven by *dharuriyyah* and/or *hajiyyah* needs or people are taking financing for *tahsiniyyat* purposes in their chase for wealth accumulation.

Although the household must justify their needs for financing, the financiers need to play a big role in curbing the expansion of household sector loans. With the BNM's target of GDP growth over the next three consecutive years set at an annual rate of 4 to 5 per cent, wealth generation and further consumption are encouraged; and efforts to lower debt levels would appear to be heading to the opposite direction. The present paper is a reminder that to achieve *maqasid al-Shariah*, addressing financial imbalances is of priority in stabilizing an economy,prior to the consideration of excessive GDP growth targets.

ENDNOTES

1. Ibn Ashur uses the word circulation (*rawaj*) and applies it to both wealth generation and wealth distribution.
2. http://www.hsbcamanah.com/amanah/about-amanah/faq.html#faq_10
3. Before 2008 and the onset of the global crisis, there was a period of remarkable drops in macro volatility and the cost of risk in advanced countries, a period dubbed the "Great Moderation" (Stock and Watson 2002) – *Wikipedia*.
4. The OLS method tests data on established theories (and causality) and assumes stationarity in all variables, whereas the time series approach actually tests these assumptions.
5. IRFs map out the dynamic response pulse of a variable owing to a one-period standard deviation shock to another variable. IRFs are normalized so that zero represents the steady-state value of the response variable.
6. Only one case has been decided on by the Kuala Lumpur High Court (Muamalat division), i.e. *Kuwait Finance House (Malaysia) vs. Empee Sugar & Allied Industries Sdn Bhd.* (Yaakub 2011).
7. The Asian Banker (6 December 2011): Malaysian Islamic banks ranking based on capital adequacy ratio under Basel rules include Hong Leong Islamic Bank (21), Bank Muamalat Malaysia (29), Al Rajhi Bank Malaysia (35), CIMB Islamic Bank (36), and BIMB Holdings (39).
8. http://www.bnm.gov.my/guidelines/05_shariah/01_murabahah_02.pdf

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Maznita Mokhtar (corresponding author)
International Centre for Education in Islamic Finance
2nd Floor, Annexe Block
Menara Tun Razak
Jalan Raja Laut
50350 Kuala Lumpur
E-mail: maznizam@yahoo.co.uk

Azman Ismail
IIFIN Consulting Sdn Bhd
89-B Jalan Aminuddin Baki, Taman Tun Dr. Ismail
60000 Kuala Lumpur
E-mail: azmanwong@gmail.com