

Analysis of Changes in the Implementation of Rebate in Malaysia Islamic Financing

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Abstract

The practice of giving rebates in Islamic financing is a benchmarking for Islamic banking in long-term sales compared to conventional loans. The implementation of the rebate is based on the concept of *da' wa taajjal*, where the bank as the financier gives a discount to their customer from the full amount when the customer makes an early settlement. There are issues up to the court level regarding the status of rebates as well as claims from customers about the actual rates that are eligible to be earned. This study was conducted on the application of rebates in the initial settlement of housing financing in 2010 which started with discretion until the latest change by Bank Negara Malaysia in (BNM) in 2019 which stipulates rebates in the agreement clause. So, this article will study and analyze the changes in the implementation of rebates in Islamic financing from discretionary, unilateral and bilateral rebates status. It is a qualitative study with a literature review approach. While the data collection process is through document analysis, the data are analyzed using descriptive and comparative approaches. The expected outcome of this research is to discuss the assessment of the extent to which the implementation of rebates with the changes that have taken place guarantees welfare on the part of the customer. This paper offers the results of analysis in helping Islamic Financial Institutions (IKIs) and Islamic banking in an effort to strengthen management related to the provision of Islamic housing financing rebates and further dignify Islamic banking management to boost the image of Islamic finance and the teachings of Islam. As well as recommending the best Rebate application for Bank Negara Malaysia to produce a current Policy Document.

Keywords: *da' wa taajjal*, early settlement, Islamic financing, long-term sales, rebate

1. Introduction

In the context of determining future profits involving deferred sales, Islamic banking in Islamic financing contracts uses a fixed profit rate calculation at pricing at the beginning of the financing agreement contract entered into. In addition, there is a rebate when the effective profit rate (Effective Profit Rate: EPR) does not reach or equal the ceiling profit rate (Contracted Profit Rate: CPR) to alleviate the burden borne by customers. This is because, at the beginning of the contract, a high CPR has been set to minimize the risk that will be faced by the bank. The pricing at the beginning of the contract is seen as if the customer is responsible for accepting the “transfer” of the risk. In contrast to conventional banking with the floating profit calculation method adopted, the method allows the interest rate to fluctuate throughout the term of the contract entered into for the purpose of minimizing the risks that will be faced according to the calculation from time to time without the occurrence of a definite profit determination at the beginning of the contract. Changes that occur in the middle of a contract without setting a definite profit value is something that is prohibited by Islamic law because of the existence of the element of *gharar* from the point of view of uncertainty.

Islamic finance has to address the rebate issue differently since Islamic finance denies any time value of money in charitable transactions such as loans. At the same time, it accepts it in some sale transactions such as instalment or deferred sales. Therefore, adopting the rebate without considering the distinction between charitable and sale transactions may raise some usury concerns in such an arrangement. Thus, a clear distinction between rebate treatments in both contracts would contribute to alleviating these concerns. The following section discusses the rebate issue in charitable and sale contracts. Rebate for debts resulting from charitable contracts (unilateral rebate) which is most of the early scholars in Islamic jurisprudence did not accept the *da' wa ta'ajjal* concept and thus did not allow rebate compensations for early settlement of debts, without differentiating between debts resulting from deferred sales and debts resulting from loans (Islam Kamal, 2021).

1.1 Significance of the Present Study

Islamic financing products show that development in Islamic financing is evolving with the demands of current realities. This is because the home financing product is not just an offer to customers that is merely available by only being labeled syariah compliant but the research involving the terms and conditions of the agreement must cover the demands in fulfilling the maqasid al-shariah. This makes the discussion on the space of maqasid al-shariah in Islamic finance as one of the important criteria to confirm that a product meets the criteria of syariah compliance (Rahisam & Ahmad Dahlan, 2014).

Lately, Islamic banking practices regarding the provision of rebates to customers in long-term financing transactions be an issue to be ensure that the rebate that is the benchmark is really implemented and make Islamic banking able to compete with conventional banking. This is started from a polemic regarding the provision of rebates in every Islamic bank that is not the same with each other (Dasuki et al., 2010). Even BNM (2013 & 2019) has made a new resolution about status implement of rebates there is still another issue. The issue is that it is

seen as not fully fulfilling the requirements of maqasid al-shariah for its current practice when there is an issue of welfare guarantee on the part of the customer to get a rebate through bilateral rebate which is included in the clause of the agreement at the beginning of the contract. It is due when the welfare guarantee on the part of the customer is a question mark even if stipulated in the bilaterally binding condition clause of the rebate but it is not placed at the beginning of the agreement how much rate should be received (Muhamad Zuhaili, 2019).

Thus, this paper aims to study and analyze the changes in the implementation of rebates in Islamic banking that are practiced in resolving claims issues from customers. The rest of the paper is arranged as follows: the next section discusses the literature on the use of rebates in Malaysian Islamic finance and a basic comparison with conventional long-term loans. Then, analyze the welfare between the bank and the customer in the context of long-term financing. The welfare element is very important to ensure that both parties are guaranteed their rights to ensure that the rebates implemented are not only shariah compliant but also meet the maqasid al-shariah. It ends with summary of discussions, recommendations and suggestions for further study.

1.2 Problem Statement

This rebate is a charity from the bank to the customer after the full sale value is set at the beginning of the contract. The perceived benefit is the current value that should be paid by the customer by being given a reduction through rebates. Thus, both parties, namely the bank as the financier and also the customer get benefits in this long-term financing transaction. In situations of early settlement which is customer make a full payment from the original period or other situations of the end of the full period at the end of the contract showing a lower EPR than CPR whereby becomes a claim on the part of the customer as to how much rebate rate should be eligible to be received. Similarly, the rate of price increase that should be charged by the bank for deferred sales which is more fair to the customer.

In the highlights of the cases that took place involving this rebate, it can be concluded that the judge's decision to 3 periods in the course of this Islamic banking. The initial period of the implementation of Islamic financing in Islamic banking until around 2005, the decision given is at its discretion and it is up to the IFI to determine the status of the grant. However, customers who violate the agreement are not eligible for the rebate. Then after 2005 to 2010, the decision decided was to grant rights in some cases and claims appropriate for the purpose of justice on the part of the client. Then from 2010 onwards there were also decisions made as in the first period (Sherin, 2017). These cases show that issues in the implementation of rebates still exist due to the factor of fairness on the part of the customer in a claim.

In the context of fairness and welfare on the part of the client through bilateral rebates included in the agreement clause to guarantee the rate of reduction eligible for the client either in early settlement situations or when at the end of a period where EPR is lower than CPR. While there are doubts about the bilateral inclusion of rebates into the agreement clause at the beginning of the contract, however the doubt has already been answered because the basis of the financing contract is not debt but a long-term sale and purchase contract.

Moreover, the existence of two prices at the beginning of the contract does not make it *gharar* because the price agreed on the Islamic financing contract is the initial full price, while the price after the rebate deductor is a guide in qualifying calculations based on certain criteria (Muhamad Zuhaili, 2019).

As long as there is no initial inclusion in the agreement clause of the bilateral rebate together with the appropriate reduction rate according to the calculations made in distinguishing accrued and unaccrued profits, then there will be doubts on the part of the customer. In addition, the profit calculation should also be differentiated from the service charge. The calculation of profit is based on the time value of money while service charges need to be clear from the beginning as each wage must be informed from the beginning of the contract.

It is appropriate that the rebate is implemented because of the expected profit based on the balance of the deferred period not existing or not yet accrued. Accordingly, the burden imposed on the customer is not reasonable if the customer had to pay the entire amount based on price at the beginning of the contract. This is because the full count is based on expectations economic uncertainty in the future. Therefore, Islamic financing set the CPR at the beginning of the contract but at the end of the term and EPR is lower then a rebate is given. The same is the case early settlement because the period has become shorter than the period original Without giving a lump sum rebate, basically the contract was still valid it is seen as not meeting the maqasid al-shariah due to the existence of polemics injustice on the part of the customer (Norwajia et al., 2014). It should be noted that although the transaction allows profit to be made but the policy The goal of Islamic finance is to meet the demands of customers instead absolute maximum profit alone though by means burden the other party. (Muhamad Zuhaili, 2022)

1.3 Literature Review

1.3.1 Rebate Implimentation Based on Da' Wa Taajjal Concept

Da' wa taajjal is a concept in which the creditor reduces the value of the debt on the debtor provided that the debtor pays earlier than the stipulated period. Regarding the law of *da'wa taajjal*, Islamic scholars differ in three views, namely: (i) It is forbidden because it resembles the element of *riba al-nasi'ah*. This is because the value of debt changes. (ii) Allowed. It is different from *riba al-nasiah* which increases while *da' wa taajjal* is the reduction and ease of the debtor to pay the debt. (iii) There are details about the law. If the stipulation of conditions occurs at the beginning agreement then it is not allowed. If there is no condition at the beginning of the agreement, or there is a condition after the agreement when the early settlement is to be done afterwards, then it is allowed (IBFIM, 2014).

Although *da' wa taajjal* was once a controversial concept among early muslim scholars but contemporary Islamic scholars tend to accept rebates in Islamic sales-based financing contracts. It has been started to apply in Islamic financing contracts as a unilateral procedure left to the discretion of Islamic banks as a financier (IIFA, 1992). After that, there is a bilateral rebate claim which is included in the clause of the agreement between the customer and the bank. Bank Negara Malaysia (BNM) in the opinion of the Shariah Advisory Council

(SAC) issued a new resolution by approving bilateral rebates entering into bilateral agreements in sales -based financing contracts through a pre -determined rebate clause to be included in the contract at first which was initially only implementation at the discretion of the bank only. What BNM has set out through the new resolution is likely to be a reasonable and fair claim (BNM, 2013).

Although bilateral rebates have been included in Islamic financing agreements, from the point of view of binding conditions at the beginning of the agreement there is legal controversy. This is because in the al-Syafi'i school which is the basic practise in Malaysia, which has detailed the law for *da' wa taajjal* does not allow the setting of rebate conditions at the beginning of the agreement except during the initial settlement (Dasuki et al., 2010). This makes it an issue where there is a default on the part of the bank and also doubts on the part of the customer as to how much rate they should get in the rebate given (Muhamad Zuhaili, 2019).

1.3.2 Rebate Are the Benchmark in Islamic Financing Contracts

Islamic financing is an alternative to conventional debt instruments. Islamic financing is based on the contract of sale transactions with deferred profit according to the principle of the time value of money are Shariah-compliant. According to shariah, Islamic financing puts a fixed profit rate of sales in order to avoid delay in *gharar* different elements used in conventional loans. Although the determination of the Base Rate (BR) is determined by the Overnight Policy Rate (OPR) but Islamic financing puts Contracted (Ceiling) Profit Rate (CPR) in the face of economic uncertainty in the future. CPR is a fixed profit rate by different Islamic financing with floating rates through interest rate advantage to changing the conventional financing. Recognizing the economic uncertainty, CPR set so as to minimize the risks borne by the banks, but in the meantime if Effective Profit Rate (EPR) does not reach the ceiling and also when early settlement has done by customer, the Islamic banking give rebates to customers (Muhamad Zuhaili & Ahmad Dahlan, 2016)

Rebate part of the debt through payment or settlement tough early practiced in the Islamic banking system today really have in common with the concept known as *da' wa taajjal*. Principle of *da' wa taajjal* has been discussed by earlier Islamic scholars for which it is known as *al-sulh 'an al-dayn al-mu'ajjal bi ba'dih halan*. This is because it is a concept that the creditor asks for the expedited payment of the debt on it by way of reduction in value due like early settlement desired. The reduction is given because of the initial payment made by the debtor from the original period. This allows the creditor to get his rights earlier. It is in contrast to the reduction in conventional loans which is based on variable interest rates based on changes in the OPR. The reduction in conventional loans is not because of rebates but because of changes in the OPR. Therefore, the determination of profit from interest rate is of a floating nature which is different from the profit rate from Islamic financing which has been fixed at the beginning of the contract. Therefore, rebates are a benchmark for Islamic financing that has its own basis and a contract policy that is different from conventional loans (Muhamad Zuhaili, 2019).

There is an explanation of the basic rate concept of Islamic financing which was questioned

by some parties with allegations of fraud and expensive with comparisons made by conventional banking. This issue has been clarified that the fundamental differences that occur in the calculation of long-term determination rates in conventional banking that fluctuate over a short period of time while Islamic banking sets a fixed and ceiling profit rate (CPR). If the effective profit rate (EPR) is lower and does not reach CPR, then Islamic banking provides rebates to reduce the burden on customers. Based on the above, there is a difference in the concept of base rate of Islamic financing offered by Islamic banking although the rate of calculation of risk of economic uncertainty in the future is the same as base rate of lending conventional because the Overnight Policy Rate (OPR) policy is under the same supervision of BNM (Zaharuddin, 2010). However, the issue of calculating Islamic financing that resembles a conventional loan based on the same base rate still persists to this day. Islamic Financial Institutions are proposed to establish a different calculation from the base rate of conventional loans when determining the value of installments in sales -based financing contracts (Islam Kamal, 2021).

1.3.3 The Practice of Rebate in Islamic Financing

Islamic financing does not actually use debt contracts on bank customers. The added value that occurs on an asset such as a house is the value determined at the beginning of the contract being entered into. The increase that occurs is not in the form of usury although the increase that occurs is more or less the same. Based on the situation, it is clear that no new risks or transfer of risk to one party will be imposed. The differences between Islamic financing and conventional loans are as follows: (i) The sales value at the beginning of the contract is set in full to avoid changes in value in the middle of the contract period causing the element of *gharar*. (ii) The contract that is built is *al-mu'awadat* which refers to sale and purchase and not the element of compassion which is the contract of *al-qard* (Muhamad Zuhaili Saiman, 2019).

Meanwhile, the practice of conventional interest-based loans allows the price level of long-term products to change according to changes in the current rate of the basic loan offered. This means that customers will face risks due to current changes that occur during the term of the loan. These changes are referred to as *gharar* which expose them to risk and speculation. Any risk of such increase in financial costs is actually borne by the customer when there is an increase by way of transferring it to them. The risk is transferred to one party only in the interest of the profit of the other party (Ab Rahim, 2012).

In the context of long-term financing that relates deferred profits, the basis for an increase in cash sales value is based on the time value of money and is built on a sale and purchase agreement, not an *al-qard* (debt) agreement. In contrast to conventional banking practices it is based on the policy of debt contracts so no benefits or additions are allowed on it because there will be an element of usury. This is the basis of the difference in long-term financing by both banks. Accordingly, the accuracy of the full sale price at the beginning of the contract is a condition for the sale and purchase contract to avoid the element of *gharar* in the sale price. Rebates become an attraction to customers when Islamic banks drop a certain portion of value on certain factors. Rebate factors such as EPR are lower than CPR in the financing

period carried out and also when the customer makes settlement earlier than the original period set when the contract is signed and the restructuring of the financing rate by the customer to the bank.

The practice of rebates is important for Islamic Financial Institutions (IKIs) and Islamic banking institutions remain in competition with conventional financial whereby Islamic banks service providers that allow customers to pay the principal and accrued interest up to the initial settlement date only (Suruhanjaya Koperasi Malaysia, 2015). The two main factors of rebates are (i) when the EPR does not reach CPR. The rebate is given after deducting the amount of unearned profit. (ii) early settlement. Rebates are made by calculating the amount of accrued profit based on the current period, not the original period.

Abdul Khir (2016) found that bilateral rebate (*ibra' mutabadal*), instead of unilateral rebate, to be the best and fairest Islamic mechanism to overcome injustice in several events that may impact the bank's liquidity such as that of early settlement of debt facility and early withdrawal of term deposit in the sense that the interest (*maslahah*) of both transacting parties is equally secured.

In the context of rebates practiced by Islamic banking institutions in Malaysia, most banks take the approach of including the rebate clause as the terms and conditions of the sales contract, instead of being made when payment is expedited. Therefore, this step is in line with the views of the al-Shafi'i school. However, the inclusion of one-sided clauses—because they are made based on absolute discretion (*absolute discretionary*)—has caused disputes, especially in cases of default. Specifically, this study argues that a rebate clause should be included in the agreement document between the bank and the customer. This is based on several important justifications (Muhamad Zuhaili, 2022):

- 1) Compliance with the time value of money in sales transactions.
- 2) Adhere to the principle of *maqasid al-shariah*.
- 3) Justice for both contracting parties.

The findings reveal that while stipulating an *ibrā'* clause makes practising *ibrā'* stray from its original concept, it has successfully tackled the current problem. However, the long-term consequences should be a concern, particularly Islamic banking products, which have been significantly influenced by the conventional system, including interest rates and the debt structure, neither of which should be identified with Islamic banking (Ishak, 2019).

2. Method

The present research work is an effort to describe the analysis of bilateral rebates with discount term at the beginning of agreement contracts from Islam financing perspective. It is an analysis documents from previous studies based descriptive research. To capture the complexity of Shariah law, with minute details and to understand the reality in a comprehensive and holistic way, qualitative approach has been used.

2.1 Research Design

The content analysis method is done to obtain information related to the concept, legal basis, rebate management practices and changes in rebate status by the Shariah Advisory Council (SAC) in Islamic Financial Institutions (IKIs). At the end of the study, this research will show a conclusion made as a result of the available information and then provide views and suggestions.

2.2 Data Collection Methods

In this study, data collection was done through document analysis techniques. This technique was chosen because it is a systematic approach to analyzing data and information in accordance with qualitative research. Document analysis was also found to be appropriate for all types of data collected in this study i.e., text data. Data collection through document analysis is also the best option for collecting and analyzing data for hard-to-reach environments.

This method is done through the collection of all three data sources, namely primary data, secondary data and tertiary data. Primary data was used as the basis for answering the research questions, while secondary data was used as a catalyst to the policy being discussed and tertiary data was used as a review of data from existing information. Data in the form of soft copy is obtained online. While the data in the form of hard copy is obtained from the libraries.

2.3 Descriptive Method

This study applied the method of data analysis through descriptive methods. This method will understand in general the study involves rebates to strengthen the basis of understanding to be in line with the Shariah perspective. Then a study will be done in detail on the application of bilateral rebates with discount term at the beginning of Islamic financing agreement contracts. The approach used by the researcher is to clarify what is understood as well as rearrange the information according to the current reality situation. Starting from the view of classical Islamic scholars as a site of strengthening understanding of the law of fiqh followed by a specific discussion on contemporary issues that focus on its problems. To that end, this study will analyze the views of Islamic scholars on the concept and form of rebate application based on the views of Islamic scholars and then observe the changes in the results of discussions and resolutions from the SAC based on the development of current practice. The data studied is planned with the status of bilateral rebates given from Islamic financing perspective.

3. Results

The findings of the study are:

- i. There is difference between Islamic finance and conventional in long-term profitability whereby starting from the status of the applicable contract, the method of reducing the total amount with the provision of rebates as well as the parties involved in the initial transaction for the occurrence of a long-term sale and purchase agreement.

Table 1. The difference in long-term profitability between Islamic and conventional banking

No	Islamic Banking	Conventional Banking
1	Fixed profit rate	Floating profit rate
2	Contract based on cost plus sale (<i>bay al-murabahah</i>)	Contract based on loan or lending (<i>al-qard</i>)
3	Sales based profit	Interest rated based profit
4	Involving 3 parties: bank as financiers, customers and sellers	Involving 2 parties: bank as creditor, and customer as debtor.
5	The rebate is a reduction when the EPR does not reach CPR and also when early settlement is done.	The reduction from total payments is due to the decrease in interest rates based on the decrease in the OPR.

Source: Author's own.

ii. The discussion on the implementation of rebates through Islamic financing through 3 processes, namely the discussion of the concept of rebates, then the law is based on the differences of views of Islamic scholars on the concept of *da' wa taajjal*. Next the formation of rebates is practically into 3 forms either discretionary, unilateral rebates or bilateral rebates. The implementation of rebates is growing with the latest resolution from BNM with bilateral rebates. However, in order for this rebate to be seen as more advanced and flexible as a benchmark in Islamic financing, the setting of discount terms at the beginning of the contract agreement is debated as it has issues in Shariah through the view of the Syafi'i school which allows *da' wa taajjal* but the conditions are not allowed at the beginning of the agreement made.

Table 2. Discussion of implementation of rebates

DISCUSSION OF REBATE		
The Concept of Rebate Based on Islamic Financial Views	Status and Relationship of Practice with Rebates	The Formation of Rebates Found in Practice in Islamic Banking
<i>Al-Hatt</i> The abortion that occurs is on the debt either in part or in whole.	discretion without binding	1. Discretionary Without any agreement.
<i>Al-Isqat</i> Drop or cancel something.	discretion without binding	2. Unilateral rebates Included in the agreement but still not binding
<i>Al-Tamlik</i> Assign to a person his rights.	rebates do not confer ownership instead reducing one's own rights over others	3. Bilateral rebates included in the agreement and is more binding but becomes an issue if mentioned at the beginning of the contract based on the views of the al-Syafi'i school
<i>Al-Hibah</i> A gift from one party only without involving exchange or consideration from the other party.	rebates do not confer ownership instead reducing one's own rights over others	
<i>Al-Sulh</i> Reduction of the value given i.e., for settlement and reducing the burden on the debtor.	more focused when there is a dispute to be resolved	
<i>Da' Wa Taajjal</i> A process performed by a creditor by reducing the value of a debt on a debtor when the debtor pays earlier than a stipulated period.	closer to the rebate in an early settlement situation but issues on the terms set out at the beginning of the contract agreement	

Source: Author's own.

iii. Changes in the implementation of Islamic banking practice rebates occurred due to issues and demands by customers. It also refers to the status of the rebate itself and becomes a question of the welfare on the part of the customer when the rebate is not binding. If the rebate is bilateral, what is the amount of reduction rights eligible to be received by the customer in the early settlement issue as the profit status has not yet accrued it is disputed whether it must be fully reduced or there is a charge imposed. Until now, there are still issues of fairness and welfare guarantees for customers especially in the issue of early settlement. This is a major factor in the changes in rebate practices from discretionary to unilateral rebates and bilateral rebates.

Table 3. Rebate application differences in Islamic financial products in the early stages

BANKING INSTITUTIONS		APPLICATION OF REBATE IN PRODUCTS		
		ISLAMIC FINANCE		
		Without clauses in the contract	With clauses in the contract	Formula rebates in contracts
1	Affin Islamic		Yes	No
2	AmBank Islamic	Yes		No
3	Alliance Islamic		Yes	No
4	Bank Islam	Yes		No
5	Bank Muamalat		Yes	No
6	CIMB Islamic		Yes	Yes
7	Hong Leong Islamic		Yes	No
8	HSBC Amanah		Yes	No
9	Kuwait Finance House	Yes		No
10	Maybank Islamic		Yes	Yes
11	OCBC Al Amin		Yes	No
12	Public Islamic Bank (PIBB)		Yes	No
13	Al Rajhi Bank	Yes		No
14	RHB Islamic		Yes	No
15	Standard Chartered Saadiq		Yes	No

Sources: Dasuki et al., 2010.

Table 4. The different judge decisions in the issue of eligible rebate claims for clients

No.	Cases	The Judge's Decision
1	Bank Islam Malaysia Berhad v Adnan Omar (1994) 3 CLJ 735	The rebate (<i>ibra'</i>) is practiced by the Islamic bank on a discretionary basis and the customer's failure to pay the instalments was a breach of the agreement which invoked the Islamic bank's right to terminate the facility and demand for the immediate full repayment of the facility. The Court granted rebate (<i>ibra'</i>) and calculated the daily profit due to the Islamic bank.
2	Dato' Nik Mahmud Bin Daud v Bank Islam Malaysia Bhd (1996) 4 MLJ 295	
3	Bank Kerjasama Rakyat Malaysia Bhd v Emcee Corporation Sdn Bhd (2003) 2 MLJ 408	
4	Arab Malaysian Merchant Bank Bhd v Silver Concept Sdn Bhd (2005) 5 MLJ 210	
5	Affin Bank Berhad v Zulkifli Abdullah (2006) 3 MLJ 67	
6	Malayan Banking Berhad v Marilyn Ho Siok Lin (2006) 7 MLJ 249	
7	Malayan Banking Berhad v Yakup bin Oje & Anor (2007) 6 MLJ 398	
8	Arab Malaysian Finance Bhd v Taman Ihsan Jaya Sdn Bhd & Ors (Koperasi Seri Kota Bukit Cheraka Bhd, third party) (2008) 5 MLJ 631	
9	Bank Islam Malaysia Bhd v. Azhar Osman & Other Cases (2010) 5 CLJ 54	
10	Bank Islam v Mohd. Azmi bin Mohd. Salleh Civil Appeal: W-02-609-2010	
11	CIMB Islamic Bank Bhd v. LCL Corporation Bhd & Anor (2011) 7 MLJ 594	
12	Bank Kerjasama Rakyat Malaysia Bhd v. Flavour Right Sdn Bhd & Ors [2013] 1 CLJ 810	
13	Kuwait Finance House (Malaysia) Bhd v AC Property Development Sdn Bhd (2013) 1 LNS 1253	
14	Bank Pembangunan Malaysia Bhd v Mensilin Holdings Sdn Bhd & Ors (2015) 1 LNS 442	

Source: Author's own adapted from Sherin, 2017.

iv. The ongoing problem is that if the rebate is not given bilaterally then the welfare of the customer is still not guaranteed if the bank refuses to provide the appropriate rebate. The implication is that the customer has to pay the full sale price even though the value of the profit has not yet accrued on the grounds that the original sale price was agreed by both parties at the beginning of the contract. This is a claim issue in the case of financing rebates because when compared to loans by conventional banking it is more flexible as it uses variable profit rates. Thus, from the point of view of maqasid al-shariah, the welfare on the part of the customer is not guaranteed as long as the rebate is not binding and must be cleared at the beginning agreement of contract, unlike the welfare on the part of the bank where the selling price increases needed to address future economic uncertainties in the issue of deferred sales.

Table 5. Welfare in Islamic financing that offers rebates between the bank and the customer

Welfare is derived from	The bank	The customer
Long-Term Financing	Purchases of assets for sale make a profit.	Able to own assets for a period even if in cash cannot afford.
Selling Pricing	Make a deferred profit.	There is no element of usury.
Rebate Giving	Encourage early settlement and avoid default.	No need to pay for unearned profits.
Absence of rebates	Earn full profits even if some have not been generated.	The burden of making full payment while part of the profit rate has not been generated.

Source: Author’s own.

v. Rebates in financing in today's finance are seen as one a form of justice and welfare for customers, especially to alleviate burden on the customer with the rejection of the calculation of the profit rate yet accrued which is included in the total price at the beginning of the count-based contract base rate. It is also an attraction for customers make an early settlement from a long-term period the original because with the rebate given there will be a reduction price based on calculated count. Because of that, giving rebates which is not just discretionary and included in the agreement clause is fulfilling the maqasid al-shariah because it more guarantees justice and customer welfare by not being burdened with overpayments unearned profit rate. It is also justice and welfare on the part of the bank, because it is able to solve the issue of default on the customer's side.

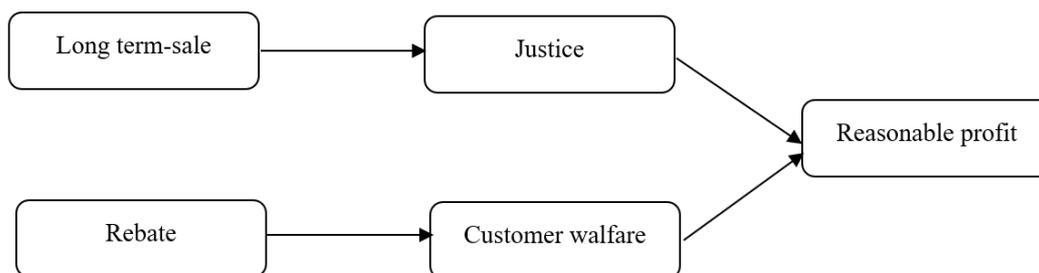


Figure 1. The formation of reasonable profits through rebates in Islamic financing through elements of justice and welfare

Source: Author’s own adapted from Muhamad Zuhaili, 2022.

4. Discussion

From the finding of the research it is clear that the changes in rebate implementation is intended to preserve the welfare of the customer as the claims issues have occurred previously in court cases. The provision of rebates is clearly a benchmark for Islamic banking

in long-term sales through Islamic financing which is an alternative to customers among Muslims, especially from conventional loans that have an element of usury. Although in essence the rebate is the right of the financier but in the context of long-term sale, then justice and welfare are the basis for both parties to be mutually agreeable. The change in the implementation of bilateral rebates included in the clause of the agreement is a change made to bring benefits to both parties. Islamic banking will be able to continue to compete and be an alternative to Muslims while customers try to be guaranteed welfare at the beginning of the Islamic financing contract.

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