

CHAPTER 1

SHARIAH FRAMEWORK ON FINANCIAL PLANNING

CHAPTER OBJECTIVES

- The Shariah Dimension of Financial Planning
- Development of Shariah Financial Planning in Malaysia
- Definition of Financial Planning and Shariah Financial Planning
- The Financial Planning Process and the Essentials of a Financial Plan
- Additional Aspects Relevant to Shariah Financial Planning
- Shariah Position on the Profession of Financial Planning
- Shariah Worldview on Wealth Management Planning

ESSENTIAL NATURE OF FINANCIAL PLANNING

- Assessing an individual's or a firm's current financial situation and his/its financial goals and planning the financial aspects of the strategy to achieve those goals.
- Provides direction and meaning to a person's financial decisions that allows one to understand how each financial decision a person makes affects other areas of one's finances.
- Helps one adapt more easily to life changes and feel more secure that one's goals are on track.
- Involves insurance planning, investment planning, estate planning and retirement planning.
- Gathers adequate and relevant data, assessing risk tolerance, complying with regulatory requirements and ethical and religious guidelines and monitoring all circumstances affecting one's personal financial plan.
- The core of financial planning practice is the planning itself, followed by implementation of the plan and monitoring it.

THE SHARIAH DIMENSION OF FINANCIAL PLANNING

- In the Shariah perspective, wealth and mental resources given to a man is a trust, for should be used for his well-being and the society at large.
- Wealth should only be used according to the guidelines provided by Allah, who is the real owner.
- All phases related to wealth including creation, accumulation, protection, purification and distribution of wealth should be undertaken with the aim of achieving success in this world and the hereafter.

SHARIAH VIEW ON SPENDING

- In Shariah, spending does not mean lavish and extravagant living, but to put money in and wealth in their proper places.
- Allah as the provider has entrusted wealth to a man to use wisely, for his benefit and that of others.
- The Shariah perspective of spending requires Muslims to set their financial goals and identify priorities, targets and costs.

THE DEVELOPMENT OF SHARIAH FINANCIAL PLANNING

- Islam is a way of life aiming for the success of mankind in this life as well as the hereafter has given a complete code for human conduct in all spheres. Those are :-
 - Beliefs
 - Ethics
 - Shariah
- The Shariah Financial Planning Certification is one of the first comprehensive training and certification program in the world to Produce Islamic Financial Planners.
- Islamic Financial Planners are needed to advise clients on how to plan and acquire wealth including financial assets that are Shariah compliant.
- An Islamic Financial Planner requires a license from the Securities Commission, must hold a CFP, ChFc or RFP qualification, have a minimum 8 years relevant experience and a minimum net worth of RM 50,000

DEFINITIONS OF FINANCIAL PLANNING

Personal Financial Planning is an interactive process designed to enable a consumer/ client to achieve his/her financial goals.

A process or methodology of assisting clients in determining their financial goals, objectives and priorities and the resources to meet them in an optimal and practical manner.

A Financial Planner is an individual who provides financial planning services to clients and meets all competence, ethics and experience requirements of the profession.

A client of a Personal Financial Planner is an individual who has accepted the terms of engagement by entering into a contract of services.

A financial goal is a quantifiable outcome aimed to be achieved at some future point in time or over a period of time.

CATEGORIES OF FINANCIAL PLANNER

Financial Planners are classified into three categories :-

- **Single Service Financial Planners** - has only a single group of products to offer his clients such as life or general insurance
- **Multi Service Financial Planners** - commands a wider range of services with a combination of different classes of products and services to his clients. Eg. Mutual funds, life and general insurance, will writing.

CATEGORIES OF FINANCIAL PLANNER

- **Comprehensive Financial Planner**

Provides a full range of services to his clients considering all relevant aspects of the financial position of a client and use his expertise in several profession and multiple sources of products to meet the client's total financial needs.

CORPORATE FINANCIAL PLANNING IN COMPARISON TO A PERSONAL FINANCIAL PLANNING

Corporate Financial Planning refers to the process of financial planning addressing firms and organizations that involves analyzing alternative investment, financing and dividend strategies in the context of various potential economic environments.

In developing a long-term financial plan for a firm, 3 decisions policies to focus on are:-

- The firm's investment decision
- The firm's financing decision
- The firm's dividend decision

DEFINITION OF SHARIAH FINANCIAL PLANNING

Shariah Financial Planning provides professional services to clients assisting them in designing a strategy for achieving their life goals within the framework of Shariah guidelines, thus ensuring their success in this world and the hereafter. This includes complying with compulsory and optional charity such as zakat, sadaqah and waqf, planning for hajj as well as division of estate to the Shariah rules of inheritance.

SCOPE AND OBJECTIVES OF SHARIAH FINANCIAL PLANNING

The objectives of financial planning could be stated as follows:-

- Providing direction and meaning to a person's financial decisions.
- Allowing a person to understand how each financial decision affects other areas of his finances.
- Allowing an individual to adapt more easily to life changes and to feel more secure

THE FINANCIAL PLANNING PROCESS

The financial planning process consists of the following 6 steps:-

- Establishing and defining the client planner relationship.
- Gathering client data and determining goals and expectations.
- Analyzing and evaluating the client's financial status.
- Developing and presenting financial planning recommendations and/or alternatives.
- Implementing the financial planning recommendations.
- Monitoring the financial planning recommendations.

ESSENTIALS OF A COMPREHENSIVE FINANCIAL PLAN

The following elements should be included in a comprehensive Financial plan :-

- Personal Data
- Client's goals and objectives
- Identification of issues and problems
- Assumptions
- Balance sheet/net worth
- Cash flow management
- Zakat and Income Tax

ESSENTIALS OF A COMPREHENSIVE FINANCIAL PLAN

The following elements should be included in a comprehensive Financial plan :-

- Risk management
- Investments
- Financial independence, retirement planning, education and other special needs
- Estate planning
- Recommendations
- Implementation

ADDITIONAL ASPECTS RELEVANT TO THE SHARIAH FINANCIAL PLANNING

- Ensuring a contravention of Shariah guidelines does not occur at any stage of the development and implementation of the plan.
- Avoid means of investment and deposit that are contrary to Shariah percepts.
- Involvement of interest and prohibited forms of insurance in the client's finances should be checked.
- Proper discharge of financial obligations such as zakat, expense of needy relatives, hajj, fulfillment of past debts, etc, should be duly planned for and diligently implemented.
- Recommending on means of sadaqah and waqaf that would result in creating an on-going chain of charities.

SHARIAH POSITION ON THE PROFESSION OF FINANCIAL PLANNING

- Giving financial advice helps protect the wealth and property of people
- Financial Planner studies the financial details of the client to formulate a plan suitable for his needs in exchange for a fee.
- When the plan is handled by the planner at any level, this could involve wakalah or agency, where the planner represents the client in transactions such as investment.
- Financial planner may charge a pre-agreed fee for his services.
- Shariah Financial Planner should be conscious of his duty to contribute to the realization of overall objectives of the Shariah, such as common welfare and reducing poverty.

SHARIAH WORLDVIEW ON WEALTH MANAGEMENT PLANNING

- In the economic theory advocated by Shariah, livelihood may be essential and indispensable, but it does not represent the true objective of human life.
- In the perspective of Shariah, livelihood are merely different stages encountered in the human journey where the ultimate objective or destination is beyond them.
- Since achieving the objective is possible only through traversing the path of this world, means of livelihood remain as the bounty of Allah.

REALITY OF WEALTH AND PROPERTY

The Islamic point of view of property places the following guidelines :-

- Whatever wealth man possesses has been received from Allah.
- Man has to use it in such way that his ultimate purpose should be the other world.
- Since wealth has been received by Allah, its exploitation by man must necessarily be subject to the commandments of Allah.

DISTRIBUTION OF WEALTH IN THE ISLAMIC ECONOMIC SYSTEM

As for wealth distribution in Islam, it divides wealth ownership into two categories:-

- Those who have primary right. This refers to those who have right to wealth directly as a consequence of their participation in the process of production.

Example:-

Wages and salary from employment or profits from investment In production process.

DISTRIBUTION OF WEALTH IN THE ISLAMIC ECONOMIC SYSTEM

As for wealth distribution in Islam, it divides wealth ownership into two categories:-

- Those who have secondary right. These are those who did not take part in the process of production directly, but who have been assigned a share in the wealth of the producers.

Example:-

Property acquired via Hibah, Wassiyah and Faraid.

DISTRIBUTION OF WEALTH IN THE ISLAMIC ECONOMIC SYSTEM

The factors of production in the Islamic system are :-

- Capital
- Land
- Labour

DISTRIBUTION OF WEALTH IN THE ISLAMIC ECONOMIC SYSTEM

The Shariah system for distribution of wealth has three objectives:-

- The establishment of a practicable system of economy.
- Enabling everyone to get what is rightfully due to him.
- Eradicating concentration of wealth.

CHAPTER 2

REGULATORY FRAMEWORK AND SHARIAH GUIDELINES FOR FINANCIAL PLANNERS

CHAPTER OBJECTIVES:-

- Regulatory Bodies Governing the Financial Planning Profession
- Shariah Authorities Relevant to Financial Planning
- Sources of Shariah

IS SHARIAH FINANCIAL PLANNING A REGULATED ACTIVITY IN MALAYSIA?

- Financial planning is a regulated activity, requiring a license from the Securities Commission (SC) as per schedule 2 of the Capital Markets and Services Act 2007.
- Bank Negara Malaysia (BNM) officially recognizes the RFP designation in November 2005 as one of the prerequisite qualifications for a Financial Adviser License.

WHAT ARE THE REQUIREMENTS FOR CMSL? (CAPITAL MARKET SERVICES LICENSE)

- To be a CMSL, must hold either RFP, CFP or ChFC qualification
- An SC licensed person is also required to fulfill the Continuing Professional Education (CPE) requirements. 20 CPE points per year is required for license renewal.

WHAT ARE THE OTHER RELEVANT REGULATIONS THAT GOVERN SHARIAH FINANCIAL PLANNER?

- Capital Markets and Services Act 2007
- FSA 2013
- IFSA 2013

AT ARE THE SHARIAH ADVISORY BODIES AVAILABLE IN MALAYSIA?

- SAC of Securities Commission
- SAC of BNM

- SAC of Islamic Financial Institutions (Islamic Banks and Takaful Operators)
- National Fatwa Committee of JAKIM
- The World Fatwa Management and Research Institute (INFAD)
- International Research Academy (ISRA)

SHARIAH ADVISORY COUNCIL of SECURITIES COMMISSION MALAYSIA

The duties of SAC are :-

- Advise the Securities Commission on Islamic Capital Market Operations.
- Standardize and harmonize the application of Shariah principles and concepts
- Review Shariah compatibility with other conventional instruments and new Islamic instruments
- Facilitate Muslim investors' participation in acquiring Shariah compliant financial assets

WHO ARE THE MEMBERS OF THE SHARIAH ADVISORY COUNCIL?

he members of the council comprise Muslim scholars who are experts in Islamic Shariah principles who have been trained in Usul Fiqh or Fiqh Muamalat and expert in finance and corporate matters who are conversant in Shariah.

THE OBJECTIVES OF SHARIAH ADVISORY COUNCIL

Using the qualitative approach, SAC agrees that securities that fall into the categories below must be excluded:-

- Operations based on riba' (interest) involving financial institution such as commercial and merchant banks and finance companies.
- Operations involving gambling activities.

Using the qualitative approach, SAC agrees that securities that fall into the categories below must be excluded:-

- Activities involving the manufacturing or sale of non-permissible (forbidden in Shariah's point of view) products such as pork, liquor and non-slaughtered meat
- Activities in the presence of Gharar (uncertainty), elements such as conventional insurance companies.
-

Using the quantitative approach, SAC agrees that if companies are involved in both permitted and Shariah non-compliant securities, the following criteria should be used :-

- The core activities must be those conforming to Shariah guidelines. Non-permissible elements must be very small compared to the non-permissible activities.
- The public perception of the company must be good or accepted as a company dealing in lawful Islamic activities

Using the quantitative approach, SAC agrees that if companies are involved in both permitted and Shariah non-compliant securities, the following criteria should be used :-

- The core activities must be important and beneficial from an Islamic point of view

THE BENCHMARK OF SHARIAH NON- COMPLIANT SECURITIES THAT MAY BE ALLOWED

- 5% benchmark applies to activities related to riba' from conventional financial institutions such as banks and insurance operators to businesses involving gambling, alcohol and pork.
- 10% benchmark applies to activities that generated income from fixed deposits received from conventional banking institutions and income received from tobacco business.

THE RESPONSIBILITIES OF THE ISLAMIC FINANCIAL INSTITUTION TO THE SHARIAH COMMITTEE

- Refer to the Shariah Committee on all Shariah issues.
- Adopt and take necessary measures for the implementation of the Shariah Committee's advice.
- Obtain the Shariah Committee's validation on all Shariah issues and documentation.
- Provide the Shariah Committee with access to relevant records, transactions, manual and other relevant information.

THE RESPONSIBILITIES OF THE ISLAMIC FINANCIAL INSTITUTION TO THE SHARIAH COMMITTEE

- Refer to the Shariah Committee on all Shariah issues.
- Adopt and take necessary measures for the implementation of the Shariah Committee's advice.
- Obtain the Shariah Committee's validation on all Shariah issues and documentation.
- Provide the Shariah Committee with access to relevant records, transactions, manual and other relevant information.
- Provide the Shariah Committee with sufficient resources, such as budget allocation, independent expert consultation, reference materials, and familiarize the Shariah Committee with the operations of the bank.
- Establish a secretariat as the bridge of communication between the Shariah Committee and the bank.

THE RESPONSIBILITIES OF THE SECRETARIAT

- Arrange and coordinate Shariah meetings on a quarterly basis or more frequently if required.
- Arrange pre-Shariah meetings prior to quarterly meetings.
- Circulate meeting notifications and agendas for meetings at least 3 working days in advance.
- Take minutes of all consultations with Shariah Committee and SAC of Securities Commission Malaysia (all consultations must be endorsed by the Shariah Committee Members)
- Distribute the endorsed minutes to the respective recipients within 3 working days.
- File the minutes for future references.

THE RESPONSIBILITIES OF THE SHARIAH COMMITTEE

- Advise the Islamic Banks.
- Endorse documentation such as:
 - Proposal Forms
 - Product Manuals
 - Marketing Advertisements
 - Sales illustrations and brochures
 - Contracts
 - Agreements
 - Legal Documentation
- Assist the SAC of SC to distribute the agreed information.
- Ensure compliance.
 - Ensure all written opinion given by the SAC is properly

implemented.

- Ensure all Shariah advice is adopted.
- Ensure all products and services, policies, documentation, and communications are in line with the opinion given by the SAC and Shariah Committee.

WHAT ARE THE DEFINITE SOURCES OF ISLAMIC LAW?

- DEFINITE Sources:
 - Quran (The Holy Book Of Islam)
 - Hadith/Sunnah (The actions and sayings of the Prophet Muhammad s.a.w (pbuh))
 - Itjmak Ulama' (The outcome of discussion of Islamic Scholars)
 - Qiyas (The analogical deduction of laws applied to current situations)
- Istihsan – is a method of exercising personal opinion in order to avoid any rigidity and unfairness that might result from literal application of law.
- Masalih Mursalah – refers to unstricted public interest that secures a benefit or prevent harm. Protection of life, religion, intellect, lineage and property is Maslahah.
- Urf - recurring practices which are acceptable to people of sound nature.
- Istishab – presumption of existence or non-existence of facts.

SUPREME OBJECTIVES OF MUSLIMS LIFE

1. THE WORLD IS TRANSITORY – THE DESTINATION IS THE HEREAFTER
2. ALL WORLDLY PLEASURES ARE TEMPORARY AND SHORT-LIVED
3. THE LIFE IN THIS WORLD IS A TRIAL FOR MANKIND
4. MAN WILL BE ANSWERABLE FOR EVERYTHING HE DID IN HIS WORLDLY LIFE

THE OBJECTIVE OF SHARIAH FINANCIAL PLANNING

1. SEEKING THE HEREAFTER BY MEANS OF WHAT ALLAH HAS BESTOWED UPON US
2. ACHIEVING THE BEST PRACTICE IN ENJOYING WEALTH
3. TO PARTICIPATE IN WORLDLY PLEASURES
4. TO SURRENDER THE WEALTH TO WHOM IS DUE
5. OPTIMISING THE BENEFITS IN DECISION MAKING

CRITICS AND GUIDE ON HUMAN BEHAVIOUR TOWARDS WEALTH

BAD BEHAVIOUR TOWARDS WEALTH:

(1) – GREED (B) – OBSESSED (C) - ARROGANT

GUIDE

1. STRIVE FOR EXCELLENCE – USE WEALTH FOR GOOD DEEDS
2. RISK MANAGEMENT – WEALTH COULD BE TAKEN AWAY

“ FOR THE LIFE OF THIS WORLD IS BUT GOODS AND CHATTELS OF DECEPTION “ – 3:185 (AL-BAQARAH)

THE CONCEPT OF WEALTH IN ISLAM

1. WHATEVER MAN POSSESSES HAS BEEN RECEIVED BY ALLAH
2. THE ULTIMATE PURPOSE IN USING/ENJOYING WEALTH SHOULD BE THE OTHER WORLD
3. THE EXPLOITATION OF WEALTH MUST BE NECESSARILY BE SUBJECT TO THE COMMANDMENTS OF ALLAH
4. A PORTION OF WEALTH SHOULD BE FORWARDED TO OTHERS IN OBEDIENCE TO THE COMMAND OF ALLAH
5. WEALTH SHOULD NOT BE SPENT IN FORBIDDEN WAYS THAT ARE LIKELY TO PRODUCE DISORDER ON EARTH

THE PROPHET (pbuh) SAID

“ WHEN HUMAN BEING DIES, HIS DEEDS WILL COME TO AN END EXCEPT FOR THREE KINDS :-

- SADAQAH JARIAH
- BENEFICIAL KNOWLEDGE
- GOOD CHILD THAT WILL PRAY FOR HIM”

CHAPTER 3: **SHARIAH CONCEPTS IN MUAMALAT**

CHAPTER OBJECTIVES:-

- Nature and Identity of Money in Shariah
- Riba' and Its Prohibition
- Gharar: Concept and Forms
- Qimar: Concept and Forms
- Time Value Of Money from the Perspective of Shariah
- Calculation of Time Value Of Money

SHARIAH CONCEPTS IN MUAMALAT

WHAT IS **MUAMALAT**?

MUAMALAT IS AN ARABIC WORD MEANING **FINANCIAL TRANSACTIONS**

WHAT IS **SHARIAH**?

SHARIAH IS THE **PRACTICES AND ACTIVITIES**

DOES ISLAM PERMIT TRADE AND COMMERCE?

YES! ISLAM PERMITS TRADE AND COMMERCE. WITH REGARDS TO ALL FINANCIAL DEALINGS ISLAM PROHIBITS RIBA', GHARAR AND QIMAR (GAMBLING)

FINANCIAL PLANNING IS TO SET FINANCIAL GOALS RELATING TO THE FUTURE

- INVESTMENTS HAVE TO BE MADE AT PRESENT SACRIFICING PRESENT MONEY FOR MONETARY RETURNS IN THE FUTURE
- TIME VALUE CONCEPT OF MONEY - IS IMPORTANT IN FINANCIAL PLANNING

NATURE OF MONEY IN SHARIAH

MONEY CAN'T BE TREATED AS A COMMODITY AS IT HAS NO INTRINSIC UTILITY AND IT IS ONLY A MEDIUM OF EXCHANGE

THEREFORE

THE TRADING OF MONEY IS PROHIBI

RIBA' AND ITS PROHIBITION

RIBA' MEANS EXCESS, INCREASE OR ADDITION

"THEY SAY : BUYING AND SELLING IS BUT A KIND OF INTEREST; EVEN THOUGH ALLAH HAS MADE BUYING AND SELLING LAWFUL, AND **INTEREST UNLAWFUL** " : 2:275 (AL-BAQARAH)

CLASSIFICATION OF RIBA'

1. **RIBA AL NASIYAH** – EXCESS AGAINST DEFERMENT
2. **RIBA AL FADL** – EXCESS COMPENSATION NOT MATCHED BY A COUNTERVALUE IN THE SALE OF GOODS

THE PROPHET (pbuh) SAID

"SELL **GOLD** IN EXCHANGE OF EQUIVALENT GOLD, SELL **SILVER** IN EXCHANGE OF EQUIVALENT SILVER, SELL **DATES** IN EXCHANGE OF EQUIVALENT DATES, SELL **WHEAT** IN EXCHANGE OF EQUIVALENT WHEAT, SELL **SALT** IN EXCHANGE OF EQUIVALENT SALT, SELL **BARLEY** IN EXCHANGE OF EQUIVALENT BARLEY, BUT IF A PERSON TRANSACTS IN EXCESS, IT WILL BE **USURY (RIBA')** "

THE NATURE OF LOAN IN SHARIAH

QARD HASSAN - LENDING OF MONEY TO ACHIEVE REWARD IN THE HEREAFTER

THE NATURE OF LOAN IN SHARIAH **QARD HASSAN**

LENDING OF MONEY TO ACHIEVE REWARD IN THE HEREAFTER

WHAT IS **QARD HASSAN**?

- LENDING MONEY AS SYMPATHETIC ACT
- LENDING MONEY TO HAVE HIS PRINCIPAL IN SAFE HANDS/CUSTODY
- TO SHARE THE PROFITS OF THE BORROWER

OVERALL EFFECTS OF INTEREST

FINANCING A BUSINESS ON THE BASIS OF INTEREST CREATES AN IMBALANCE AND INJUSTICE TO EITHER PARTIES IN DIFFERENT SITUATIONS

THEREFORE
SHARIAH **DOES NOT APPROVE** OF AN **INTEREST-BASED LOAN**
AS A FORM OF FINANCING

ADVERSE EFFECTS ON INTEREST-BASED LOAN

- WHEN ADVANCING INTEREST-BASED LOAN BECOMES A FORM OF PROFITABLE TRADE, THE WHOLE ECONOMY TURNS INTO A **DEBT-ORIENTED ECONOMY**
- EVIL EFFECTS ON ALLOCATION OF RESOURCES
- EVIL EFFECTS ON PRODUCTION
- EVIL EFFECTS ON DISTRIBUTION
-

WHAT IS **GHARAR**?

- RISK, UNCERTAINTY AND DECEIT OR ANY BARGAIN WHERE THE OUTCOME IS HIDDEN

FORMS OF GHARAR

ANY BILATERAL TRANSACTION THAT COMPRISES THE FOLLOWING:-

- THE LIABILITY OF THE PARTY IN THE TRANSACTION IS EITHER UNCERTAIN OR CONTINGENT
- CONSIDERATION OF EITHER IS NOT KNOWN
- ULTIMATE OUTCOME OF ANY ONE IS UNCERTAIN
- DELIVERY IS NOT IN CONTROL OF THE OBLIGOR
- PAYMENT FROM ONE SIDE IS CERTAIN, BUT FROM THE OTHER SIDE IS CONTINGENT

IN MANY CASES, GHARAR CAN BE ELIMINATED FROM THE CONTRACTS BY CAREFULLY STATING THE **OBJECT OF SALE** AND THE **PRICE** IN ORDER TO ELIMINATE **UNNECESSARY AMBIGUITIES**

GHARAR IN MODERN CONTRACTS

- INSURANCE
 - FINANCIAL DERIVATIVES
- EXAMPLE:
(1) FORWARDS (2) FUTURES (3) OPTIONS

WHAT IS **QIMAR**?

AN ACTIVITY IN WHICH THE PLAYERS VOLUNTARILY TRANSFER MONEY OR SOMETHING ELSE OF VALUE AMONGST THEMSELVES AND IS CONTINGENT UPON THE OUTCOME OF SOME FUTURE UNCERTAIN EVENT

CONDITIONS OF QIMAR

- IT IS A TRANSACTION BETWEEN TWO OR MORE PEOPLE

- IN ORDER TO GAIN SOMEONE ELSE'S WEALTH IN THE TRANSACTION, ONE PLACES HIS WEALTH AT STAKE WHETHER ACTUALLY OR BY PROMISING TO PAY LATER
- GAINING ANOTHER'S WEALTH IS CONTINGENT UPON SOME UNCERTAIN EVENT IN THE FUTURE AND BOTH POSSIBILITIES OF IT OCCURING AND NOT OCCURING ARE PRESENT
- THE WEALTH IS EITHER LOST COMPLETELY WITH NOTHING IN RETURN FOR ONE PERSON AND BRINGS WEALTH TO THE OTHER PERSON

SHARIAH PERSPECTIVE ON TIME VALUE OF MONEY

TIME VALUATION IS POSSIBLE ONLY IN BUSINESS AND TRADE OF GOODS, AND NOT IN THE EXCHANGE OF MONETARY VALUES OR LOANS AND DEBTS. IN OTHER WORDS

SHARIAH PROHIBITS MONETARY VALUE OF TIME

WHAT IS TIME VALUE OF MONEY

TIME VALUE OF MONEY CAN BE USED TO COMPARE INVESTMENT ALTERNATIVES AND TO SOLVE PROBLEMS INVOLVING LOANS, MORTGAGES, LEASES, SAVINGS AND ANNUITIES.

WHAT IS TIME VALUE OF MONEY

- THE TIME VALUE OF MONEY REFERS TO THE FACT THAT A RM1 IN HAND TODAY IS WORTH MORE THAN A RM1 PROMISED AT SOME FUTURE TIME
- IT IS RELATED TO OPPORTUNITY COST WHEREBY THE COST OF ANY DECISION INCLUDES THE COST OF BEST FORGONE OPPORTUNITY

PROBLEM SOLVING

YOU ARE BUYING RM 14000 SEDAN. YOUR DOWN PAYMENT IS RM 1500 AND YOU ARE GOING TO FINANCE THE REMAINING RM 12500. THE CAR DEALER IS OFFERING 2 CHOICES

∴-

- 1) 3 - YEAR LOAN WITH ANNUAL INTEREST 3.5%
- 2) 3 - YEAR LOAN WITH ANNUAL INTEREST 9.5% PLUS RM 1000 REBATE