International Journal of Islamic Business | December 2018 |
VOL 3 ISSUE 2 | Page 59-66
eISSN : 0127-662X |

A REVIEW ON PRODUCT DEVELOPMENT OF ISLAMIC SOCIAL FINANCE IN TIJARI SECTOR

Syahidawati Shahwan
Zurina Shafii
Azrul Azlan Iskandar Mirza
Safeza Sapian
Supiah Salleh
Norhaziah Nawai
Norhazlina Ibrahim
Asmaddy Haris
Islamic Finance and Wealth Management Institute (IFWMI)
Faculty of Economics & Muamalat
Universiti Sains Islam Malaysia
Bandar Baru Nilai, Negeri Sembilan

Norafni @ Farlina Rahim (Corresponding author)
Department of Muamalat
Kolej Pengajian Islam Johor
Johor Bahru, Johor Darul Ta'zim
Email: farlina_84@yahoo.com

Date submitted: 10 March 2018; Date Accepted: 15 July 2018

ABSTRACT

Social finance is not new, but most low-income earners are not keen to utilize social finance products due to its association with *riba* (usury). Islamic social finance on the other hand offers the alternative to generate economy and create wealth, with its Shariah-compliant underlying principles. This new mechanism offers the alternative for people under the paradigm of Islamic economic system. This instrument covers the deficiency of Islamic finance, in both i*jtimai'e* and *tijari* sectors. Thus, it is crucial to the stages involved in the creation of Shariah-compliant products that can meet the objectives of *ijtimai'e* and *tijari* sectors. The main objective of this paper is to review the concept and paradigm of Islamic economic system and the position of Islamic social finance. It also reviews the product development and innovation of this mechanism. The methodology used for this is qualitative in nature, namely content analysis of the secondary sources of similar themes. It was found that there is very limited discussion on product development in Islamic social finance.

Keywords: Islamic social finance, *tijari* Sector, Islamic economy paradigm, product development

1. INTRODUCTION

Islamic economy is divided into three main areas; *siyasi, tijari* and *ijtimai'e*. According to Dato Dr Abdul Halim Ismail, the award recipient of the royal award of Islamic finance 2014 in his speech, mentioned that the Islamic social finance product is accommodating the paradigm of Islamic economy, complements the loopholes in Islamic finance (MIFC, 2014). Islamic social finance product cover both sectors; namely, *ijtimai'e* and *tijari* sectors, due to its aspiration to alleviate poverties and to generate economic growth and development. Product development always associated with product instead of services, making it lack in discussion and literature review. This paper attempt to review the paradigm of Islamic social finance in *tijari* sector and its product development stages. Product development is significant in Islamic banking because there are diverse of products available. Furthermore, Syahidawati, Mustafa Omar, & Zaharuddin (2014) argued that new financial product always fails during launching stage. In Islamic finance, attention is mostly given to Shariah framework and not on product development.

Furthermore, perusal of literature found that the perception of low-earners is not in favor of the Islamic social finance product (Salwana, Rashidah, Nordin, Rohani & Aliyu Dahiru, 2013; Zurina, Syahidawati, Azrul Azlan Iskandar, Safeza, Supiah, Norhaziah, Norhazlina, Asmaddy & Norafni, 2018). This can be attributed to the perception that conventional social financing is simple and charge low interest (Salwana, et al, 2013) and its association with *riba'* (interest) (Zurina, et al., 2018). These perceptions are influenced by the product failure in reaching the public especially low-income earners. Thus, this paper attempt to review the literature on product development in Islamic social finance as an initial effort for product betterment in the *tijari* sector.

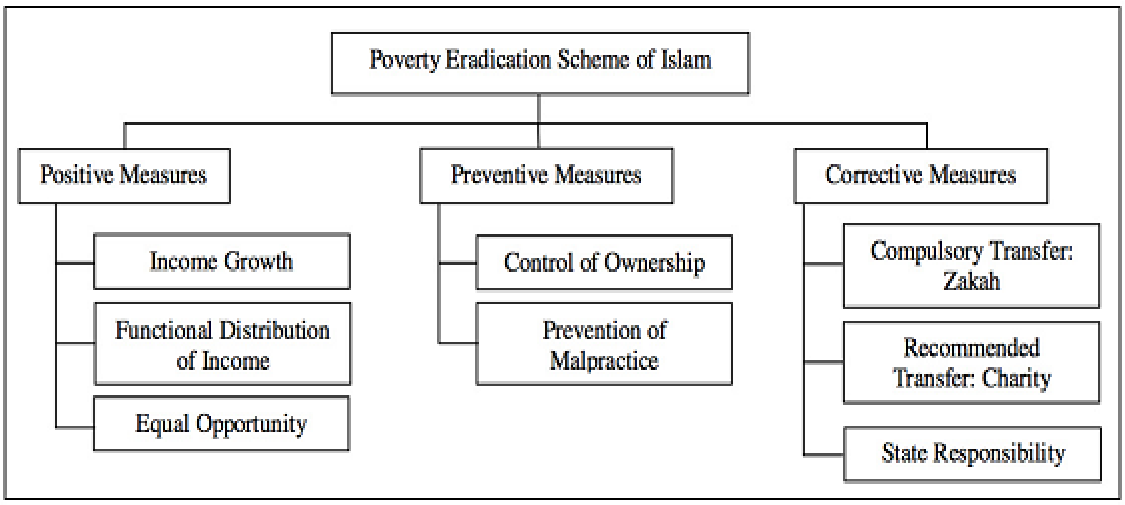
2. LITERATURE REVIEW

THE PARADIGM OF ISLAMIC SOCIAL FINANCE IN TIJARI SECTOR

Islamic economy consists of three main sectors; *siyasi* (government or public sector), *ijtimai'e* sector (social sector or non-profit sector) and *tijari* sector (trade sector or profit-based sector). The differences in all these sectors lie in the aspirations of achieving the socio-economic equilibrium and also to achieve *falah* (success) in this world and the hereafter. The Islamic economy is based on the paradigm of *Tawheed* and submission to Allah, followed by unity of the Ummah (nation) and spirit of brotherhood to attain blessings from Allah. In the Holy Quran Allah said, "Indeed, Allah is with those who are righteous and those who do good" (Al Quran. Al-Nahl: 129). In another verse Allah mention about unity of the *Ummah*, "And hold fast, all together, by the covenant of Allah all together and be not disunited, and remember the favour of Allah on you when you were enemies, the he united your hearts so by His favour you became brethren; and you were on the brink of fire, the He saved you from it, thus does Allah make clear to you His communications that you may follow the right way" (Al Quran. Ali-Imran: 103).

Islamic social finance is a combination of two major sectors; Islamic finance and Islamic microfinance (Karim, Tarazi, & Reille, 2008; Shaheen, Chin & Meysam, 2015). Some argued it is under the umbrella of Islamic finance, due to its sub-divison of the product within the same principle, i.e. prohibition of *riba*' (usury). Generally, the role of Islamic social finance is to alleviate poverty. Poverty is an undesirable state in Islam because it dampens economic growth and productivity. The poverty alleviation and eradication model of Islamic social finance product is depicted as follows:

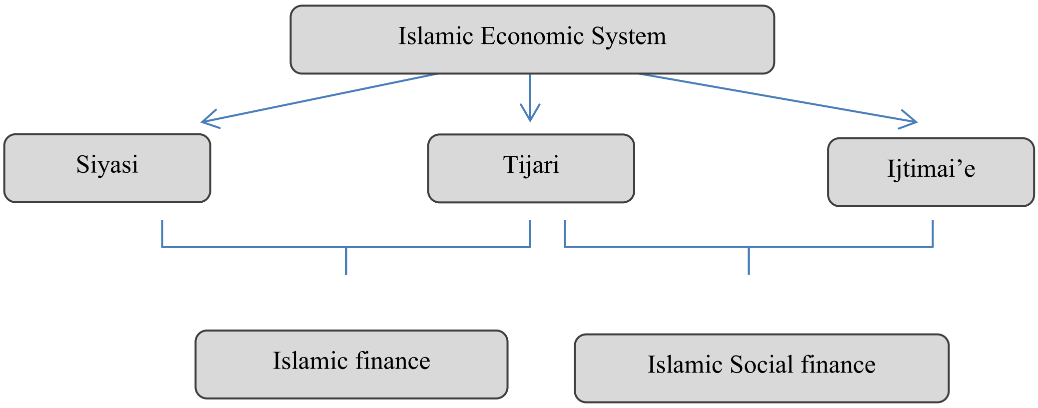
Figure 1: Poverty Eradication Scheme in Islam



Source: Sadeq (1995), as in Shaheen, et al., (2015) and Farah Aida, Rashidah & Normah (2012).

In the discussion of Islamic social finance, Islamic microfinance is considered part of Islamic social finance. A report by Islamic Research and Training Institute (IRTI) (2015) stated that, "*the Islamic social finance sector broadly comprises the traditional Islamic institutions based on philanthropy e.g. zakah, sadaqah and awqaf; those based on cooperation e.g. qard and kafala; and the contemporary Islamic microfinance institutions that aim at making a dent on poverty*" (pg. 7). IRTI (2014, 2015) defines Islamic social finance in its report to include *zakat, sadaqah* and *waqaf*, which are philanthropy-based traditional social finance. These instruments are general sources of Islamic financing to accommodate the *ijtimai'e* sector. This is parallel with the statement by Dr Zamir Iqbal, the head of the World Bank Global Islamic Finance Development Center in Istanbul who states that economic development and growth is the foundation of the Islamic economic system. Islam view property as a means of inclusions which is the rights of less fortunate (less wealthy) in the properties of the wealthy (Zamir Iqbal, 2014). This type of instrument complement the model of Islamic economy sectors because it covers the loopholes in Islamic finance which covers siyasi and tijari sectors. Dato' Dr Abdul Halim Ismail also stated that stated that Islamic finance only caters for *siyasi* and *tijari* sector, but not the *ijtimai'e* sector (MIFC, 2014). Thus, the Islamic social finance product is complementing the paradigm of Islamic economic system. However, most discussion on Islamic social finance focus on its role only in *ijtimai'e* sector. There is a need of Islamic social finance product that can achieve the objectives in tijari sector to promote the growth and development of the economy instead of focusing only on poverty alleviation (Zurina, et. al., 2018).

Figure 2: The Complementary of Islamic Social Finance in the Paradigm of Islamic Economic System



Zurina et al., (2018) has discussed the the role of Islamic social finance in tijari sector. It stated that Islamic social finance products is offered by bank and non-bank institutions. The Islamic banks offer Islamic social financing through *Qard al Hasan* (benevolent loan) and *Al-Rahnu* (pawn broking) while non-bank institutions such as Yayasan Tekun, Yayasan Usaha Maju Sabah and Koperasi Kedai Rakyat (to name a few) offer social financing through micro financing, micro *takaful* and other instruments in social finance.

There are a lot of microfinance products in the financial market; however, its role in poverty alleviation is sceptically accepted. Farah Aida et al., (2012) argued that government and markets alone cannot solve poverty, it needs involvement from non-government agencies and societies. There are also numerous claims that Muslims do not utilize the microfinance product available due to its non-Shariah compliant element, i.e. the repayment still *riba*-inclusive (Shaheen, et al., 2015). This perception has dampened the economic growth and development as well as wealth creation activities. Thus, Salwana et al., (2013) proposed an integrated model of microfinance products with bank operation. There is also a proposal by Zamir Iqbal in globalizing Islamic social finance products through hybrid product by integrating different models of financing (Zamir Iqbal, 2014). This means Islamic social finance instruments need to design to make it familiar to the public to achieve its objectives in *tijari* sector. In this case, product development is crucial. It also has emphasized by Salwana et al. (2014) as product development is the first stage to ensure its wholesomeness and comprehensiveness in functioning as financial outreach for low-earner. However, very few studies have been done on product development in Islamic finance such as by Syahidawati & Mustafa Omar (2013), Syahidawati, et al. (2014) and Salwana et al. (2014). Thus the discussion on product development of Islamic social finance is significant to penetrate the mass market.

METHODOLOGY

The main objective of this article is to review the product development process of Islamic social finance products in *tijari* sector. In order to achieve the objective, content analysis was conducted. The analysis is based on perusal of academic journals and relevant documents pertaining to product development published by Bank Negara Malaysia (BNM) in 2014 for Shariah Governance Framework (SGF). Since the available literature on product development in Islamic social finance is very limited, the researcher tries to review the product development theory by Habib Ahmed (2013) and Wan Ismail (2011) with Islamic finance product. This is considered appropriate as Islamic social finance is under the same umbrella with Islamic finance. The following discussion is drawn from the data gathered from the content analysis.

DISCUSSION

Product development (PD) is an important stage which greatly influence the overall success and development of an organisation. Developing a successful new product is utmost important and critical (Akamavi, 2005; Baker, Hart, & Hart, 2007; Brown & Eisenhardt, 1995; George & Paulina, 2000; Hassan, 2008; Tzokas, Hultink, & Hart, 2004). Compared to tangible product innovation, service innovation or intangible product innovation is less sophisticated and complicated (Akamavi, 2005). However, Cooper and Scott J (1996) found that almost 50 percent of new financial service product fails at their launching stage, thus requiring substantial efforts to deal with this crucial stage of development.

Developing a new product in the financial sector is somewhat different from the manufacturing industry which demands high cost of tangible product. The product in the financial sector is characterised as intangible, service-based blueprint and involved processes (Shostack, 1982). Ahmed (2011) adds that an in-depth and proper planning are thus essential for the process of developing the product blueprint and its delivery infrastructure. Hence, providing a cost-effective new product throughout the overall processes will enhance the financial performance of the bank (Saubert, 2005). It is vital then to understand the product development process and its best practices to achieve the said objective.

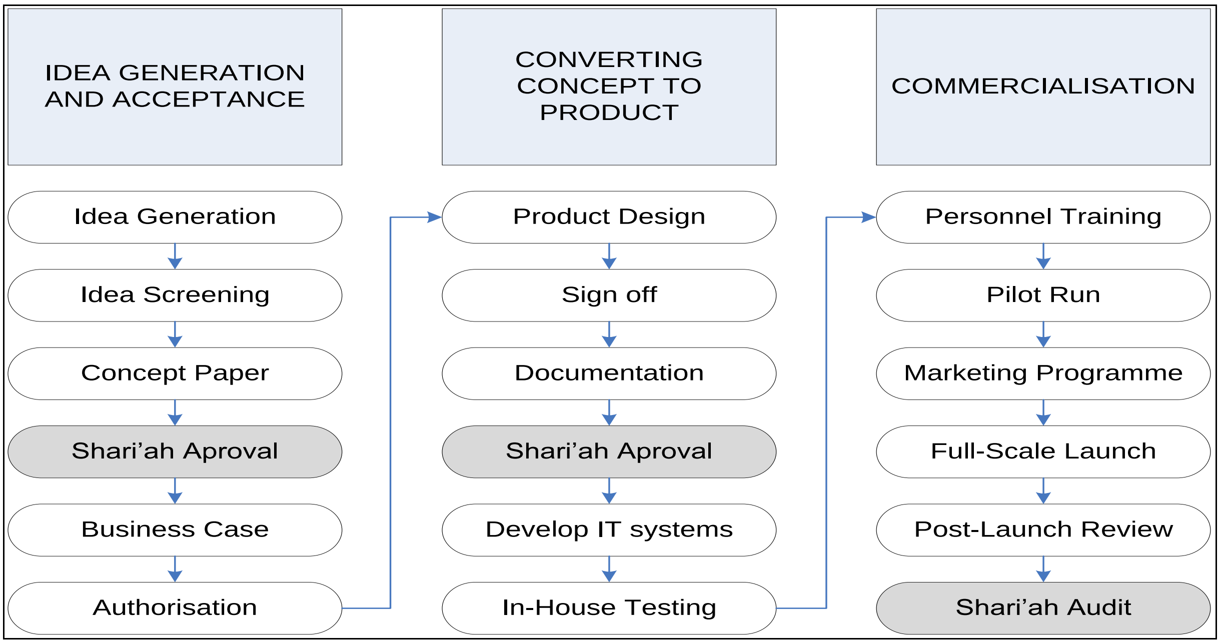
In the Islamic financial sector particularly, the literatures are very limited since many banks have not adopted any mainstream models when developing new Islamic banking and financial products. The PD process in Islamic finance is available indirectly without specific model and stages beings associated (according to Islamic bank's executive in Malaysia). The PD is attributed to an ad-hoc appointment of several committees consisting of product development officers, Shariah officers, risk management officers and other appointed officers. The existing practices reported in many literatures also highlight only the Shariah compliance approval process rather than the overall PD process.

In Islamic social finance, the product innovation varies from one institution to another depending on the objective of the institution. The terminology of social finance leads towards bigger objective of Islamic banking and financial institutions. The initial function of bank as part of commercial sector of the economic system requires new paradigm. The emergence of Islamic bank and financial institutions has made banks to innovate additional function in relation to socially related commercial activities. Due to the said development, Ismail (1986) proposed three functions of an Islamic economic system thus resembling the objective of Islamic banks and financial institutions; the government sector or known as "*siyasi*", the commercial sector or known as "*tijari*", and the welfare sector also known as third sector or "*ijtimai'e*". As financial institution, Islamic banks adhere to its commercial demand; that is to be responsible towards its shareholders and depositors (Ismail,1986). The social elements of Islamic banks are voluntary basis and should be regarded as philanthropic activity of the bank for better positioning the bank in society. The social welfare activities of the banks are meant to uplift the banks' reputation before the Muslim *ummah* (Jusoh, W.N.W., Ibrahim, U. (2015); Abul Hassan, Sofyan Syafri Harahap (2010); Dusuki (2008).

As reported in Islamic Social Finance Report (2015), the variety of products in Islamic social finance ranges from *zakat, waqaf* and microfinance. The range of product could be extended to currently developed product like *sadaqah* and crowd funding. The major aim of social finance is to meet the needs of the poor and to make a dent on their ever-rising levels of poverty (IDB, 2015). Hence, product development agenda of social finance in Islamic banking and financial institutions should be able to promote and uplift the economic status of the poor and needy.

Since social finance is a subdivision of finance in general, the product development process of Islamic social finance products should also go through similar stages in new product development process of financial product. Moreover, since Islamic social finance for *tijari* sector in Malaysia is a highly regulated industry, the guidelines and circular issued by Bank Negara Malaysia (BNM) should be the main reference. According to BNM (2014)[1], all new products should undergo two main stages known as pre-product approval and post-product approval process (i.e. process after the product has been offered to the customers and transactions have been carried out). The stage of pre-product approval consists of product structuring, product development and introduction to the market. These three stages are termed by Ahmed (2013) as idea generation, conversion from concept to product, product development and product commercialisation as depicted in Figure 3.

Figure 3: Product Development and Product Commercialization



Source: Habib Ahmed (2013)

Wan Ismail (2011) termed the stages in product development as product conceptualisation, product development, approval and product commercialisation as shown in Figure 4.

[1] The Introduction of New Products document was issued on 7 March 2014 supersedes the Guidelines on Introduction of New Products (issued on 17 October 2011) should be read together with Shariah Governance Framework for Islamic Financial Institutions dated 22 October 2010.

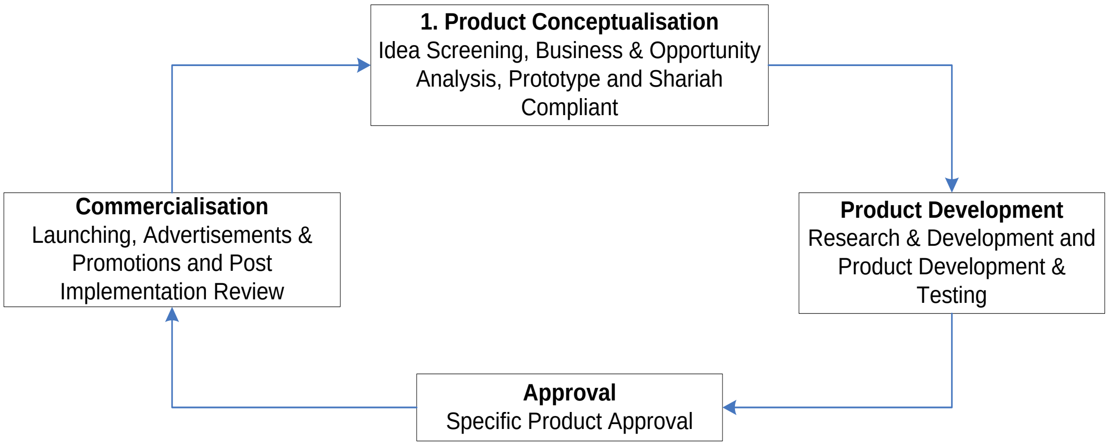


Figure 4: Product Conceptualisation, Development, Approval and Commercialization
Source: Wan Ismail (2011)

Thus, the current study conclude that the stages of pre-product development of Islamic banking financial product are three stages based on the three models proposed by BNM, Habib Ahmed and Wan Ismail. These stages are known as product conceptualisation, product development and product commercialisation. Shariah approval of the product is considered inclusive in all the three stages. Islamic financial institution must ensure that the new product follows the guidelines highlighted by BNM, 2014:

(i) All new product proposals must be endorsed and validated by all members of the Shariah Committee including the terms and conditions contained in proposal forms, offer letters, agreements and other legal documents used in the product transaction. Similarly, all product manuals, advertisement or marketing materials, product illustrations and brochures used to describe the new product shall be endorsed by the Shariah Committee;

(ii) All Shariah issues are thoroughly researched prior to the deliberation by the Shariah Committee and the certification by the Shariah Committee must be backed by the relevant *fiqh* literature, evidence and reasoning; and

(iii) There is an effective process in place to monitor Shariah compliance of products on an on-going basis. This includes ensuring that all operational decisions concerning the product are conducted in a Shariah-compliant manner, for instance, only accepting collaterals that are Shariah-compliant for Islamic financing products.

CONCLUSION

The Islamic social finance product is proven to accommodate the paradigm of Islamic economic system, which covers both ijtimai'e and tijari sectors. It conceals the loopholes in Islamic finance sectors by providing microfinance instruments to generate the economy and stimulate wealth creation. The Islamic social finance products not only function to alleviate poverty (*ijtimai'e* purposes) but also to generate wealth and economic growth (*tijari* purposes). However, its product is still not efficiently reaching the public especially the low-earners as they perceive it with *riba*-association. Thus, product development in Islamic social finance in *tijari* sectors needs to be discussed. The review found that the product development in Islamic services and product including Islamic social finance is still under-explored. The models of product development and the guidelines discussed in previous section can be an initial platform to achieve the objective of Islamic social finance in tijari sector.

ACKNOWLEDGMENT

The authors would like to thank the Yayasan Tun Ismail Chair, PNB for funding the research under research grant USIM/YTI/FEM/30/42415.

REFERENCE

Ahmed, Habib. (2011). *Product Development in Islamic Banks*. Edinburgh Edinburgh University Press.

Akamavi, Raphae l K. (2005). A research agenda for investigation of product innovation in the financial services sector. *Journal of Services Marketing, 19*(6), 359-378.

Baker, M.J., Hart, S.J., & Hart, S. (2007). *Product Strategy and Management*: FT Prentice Hall.

BNM (2014). Shariah Governance Framework. Retrieved from http://www.bnm.gov.my/guidelines/05_shariah/02_Shariah_Governance_Framework_20101026.pdf

Brown, Shona L., & Eisenhardt, Kathleen M. (1995). Product Development: Past Research, Present Findings, and Future Directions. *Academy of Management Review, 20*(3), 343-378.

Cooper, Robert G., & Scott J, Edgett. (1996). Critical Success Factors for New Financial Services: A stage-gate approach streamlines the new product development process. *Marketing Management, 5*(3), 26-37.

Farah Aida, A.N, Rashidah, A.R., & Normah, O. (2012). Zakat and Poverty Alleviation: Roles of Zakat Institutions in Malaysia. *International Journal of Arts and Commerce,* Vol.1, No.7, pp. 61-72.

George, J. Avlonitis, & Paulina, Papastathopoulou. (2000). Marketing communications and product performance: innovative vs non-innovative new retail financial products. [DOI: 10.1108/02652320010315334]. *International Journal of Bank Marketing, 18*(1), 27-41.

Hassan, M. Kabir. (2008). Editor's Notes. *Journal of Islamic Economics, Banking and Finance, 3*(2), 1-3.

IRTI (2014). *Islamic Social Finance Report 2014*. Saudi Arabia

IRTI (2015). *Islamic Social Finance Report 1436H/2015*. Saudi Arabia.

Ismail, A. H. (1986). *Islamic Banking in Malaysia: Some Issues, Problems and Prospects*. Kuala Lumpur: Banks Islam Malaysia Berhad.

Karim, N., Tarazi, M., & Reille, X. (2008). Islamic Finance: An Emerging Market Niche. *CGAP Focus Note 49*. Washington, D.C.: CGAP, August

MIFC (2014). *My Wishful Thought on the Development of Islamic Banking and Finance Products for the Social Welfare Sector: Public Lecture by Dato Dr Abdul Halim Ismail (The Royal Award for Islamic Finance)*. Retrieved from http://www.inceif.org/wp-content/uploads/2013/11/Public-Lecture-by-Award-Recipient.pdf (Accessed on April 22, 2016).

Sadeq, A. M. (1995). *Economic development in Islam*. Selangor Darul Ehsan, Malaysia: Pelanduk Publications.

Salwana, H., Rashidah, A.R., Nordin, A.B., Rohani, M., & Aliyu Dahiru, M. (2013). Designing Islamic Microfinance Products for Islamic Banks in Malaysia. *Middle-East Journal of Scientific Research* 17 (3), 359-366.

Saubert, William M. (2005). The Financial Imperative for Cost-Effective Product Development and Delivery. *Bank Accounting & Finance, April – May*, 1-7.

Shaheen, M., Chin, S.K., & Meysam, S. (2015). A Shariah Perspective Review on Islamic Microfinance. *Asian Social Science*, Vol. 11, No.9, 273 – 280.

Shostack, G. Lynn. (1982). How to Design a Service. *European Journal of Marketing, 16* (1), 49 - 63.

Syahidawati, S., & Mustafa Omar, M. (2013). Rating BBA and MMP In Their Stages Of Product Development Based On Maqasid Framework. Proceeding of the *International Symposium on the Analytic Hierarchy Process 2013*. Retrieved from http://www.isahp.org/uploads/82.pdf

Syahidawati, S., Mustafa Omar, M., Zaharuddin, A. R. (2014). A Literature Analysis in Proposing Maqasid Framework in the Product Development Stages of Islamic Banks. *Forum Riset Ekonomi dan Keuangan Syariah*, Universitas Islam Negeri Syarif Hidayatullah Jakarta on 13th-14th December 2014.pp: 1-32.

Tzokas, Nikolaos, Hultink, Erik Jan, & Hart, Susan. (2004). Navigating the new product development process. *Industrial Marketing Management, 33*, 619 - 626.

Zamir Iqbal (2014). *Enhancing Financial Inclusion Through Islamic Finance* (slides). Turkey Inclusion Conference, June 3rd 2014. Istanbul.

Zurina, S., Syahidawati, S., Azrul Azlan Iskandar, M., Safeza, S., Supiah, S. , Norhaziah, N., Norhazlina, I., Asmaddy, H., & Norafni @ Farlina, R. (2018). Islamic Social Finance in Ijtimai'e and Tijari Sector in Malaysia: A Review. , in *Extending the Boundaries of Islamic Finance, Vol. 4, YTI Lecture Series*. ed: Mohd Daud Bakar, Amir Shaharuddin & Nazratul Aina, M.A. Nilai: USIM Press, pp: 259-278.