CHAPTER VI

ANALYSIS PHASE II

SHARIAH ADVISER'S PERCEPTION

6.1 Introduction

This chapter will attempt to analyze the *Shariah* advisers via qualitative data collected during the interview process connecting it to the theory, giving a clear and well-argued answer to the research questions and objectives stated in the study. Thus bring out the researcher's contributions and point of views.

As earlier mentioned, this section of chapter the interviewed respondents from five (5) different *Shariah* advisers who answered questions in the interview guide. However, regarding to the analysis and interpretation of the data, the study will discuss shallowly on some of the parts which related to help answers the research questions and objectives respectively. It is valuable to note that this analysis is based on what was said to the researcher by the respondents, the impression of the study acquired while carrying out the interviews and the way the researcher as an individual has interpreted what was said.

The respondents interviewed shared responses with same meaning to most of the questions although in different words. The study also found some differences in opinion from their experiences and perceptions hence, for better understanding of each of their position in the industry with regards to credit risk management and also Islamic finance. Next, the study will compare and analyze by using NVIVO software as same in the first phase of analysis in the previous chapter as too to validate the parameter.

6.2 Analysis of Selected *Shariah* Advisers Interview Responses

After interviewed and analyzed the selected banks interview responses as to know the current practices, their experiences as well as the views in Islamic elements that can be used in managing credit risk in evaluation process of commercial financing approval and to identify the differences within different types of banks in credit evaluation process, in this section will discuss further regarding to the *shariah* adviser's perception and opinion towards to validate the above scope of study as well as to discuss and explore on their perspectives in current practices in area of interest for this study in terms of in regards of five C's and CAMPARI, what and how Islamic principles are used in credit risk management in credit evaluation process and discuss regarding to the implementation of a good parameter for credit evaluation process for Islamic banks in commercial financing approval.

To extent this further, this section will divided into four (4) themes of study that will be analyze further based on the interview responses which includes of discussions on five C's and CAMPARI elements in credit evaluation process, *adl', ukhuwah, Istiqamah, Akhlak, Syura* and *Tawakkal* Elements in credit evaluation process, *Daruriyyah* and *Hajiyyah* in credit evaluation process and credit management (during and after the lifetime).

6.2.1 Five C's and CAMPARI Elements in Credit Evaluation Process

This section also mention in the previous chapter. This point out those different respondents in different industry has different point of views in regards of five c's and CAMPARI elements in credit evaluation process. However there are some pit points of interest from *Shariah* adviser's perception. As the respondents may conjure up more than one image or word, Table 6.1 below summarizes the *Shariah* adviser's perceptions of credit evaluation process:-

Table 6.1 Words and Concepts Associated with Five C's and CAMPARI Elements by Selected *Shariah* Advisers

Words and concepts Associated with Five C's and CAMPARI Elements	*Shariah* Advisers	Total
Purpose	5	5
Ability to Pay	4	4
Character	4	4
Amounts	3	3
Margin	2	2
Repayment Terms	1	1
Insurance	0	0
Capital	0	0
Capacity	0	0
Collateral	0	0
Conditions	0	0

Based on table 6.1 above, the two (2) most common word associations with Five C's and CAMPARI Elements were "purpose" and "ability to pay" by respondents. As take back to phase I of analysis under section 5.2.1, *Shariah* advisers have same perception within respondents from full-fledge of Islamic banks (FFIB). This study viewed have different virtue as their number one "purpose" and "ability to pay" issues.

Much effort is required in gathering the first utmost elements used with different types of respondents. These as experienced by respondents G, H, and I:-

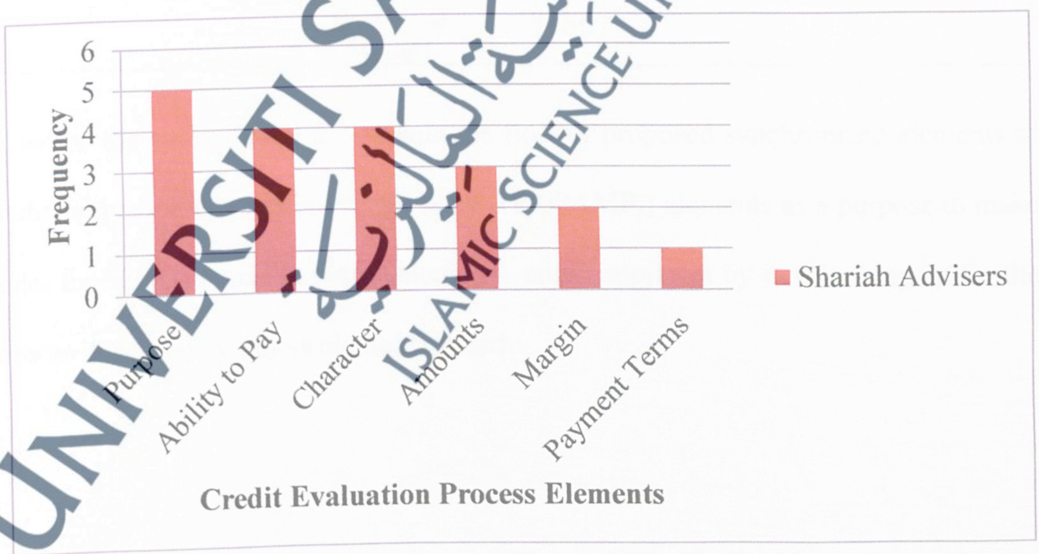
"In my opinion, both types of banks are guided by BNM guideline under the section of "Credit Risk Management Process", the first step discussed in this guideline is the purpose of credit. So that, Islamic banks for me, they should not use five C's in evaluation process because under this elements there is not stated the elements of purpose (niat)." (Respondent G)

"Being prepared for credit evaluation process, to me, purpose of financing is come first. Then it should be followed by ability to pay. Conversely, Islamic elements should be put as add the value towards Islamic banks practices. " (Respondent H)

"On behalf of different types of banks, Islamic banks should more strictly first evaluate their clients based on the purpose. For conventional banks, for me, they more first look at the character elements. As in Islamic practices, purpose (niat) comes formerly in making decision."(Respondent I)

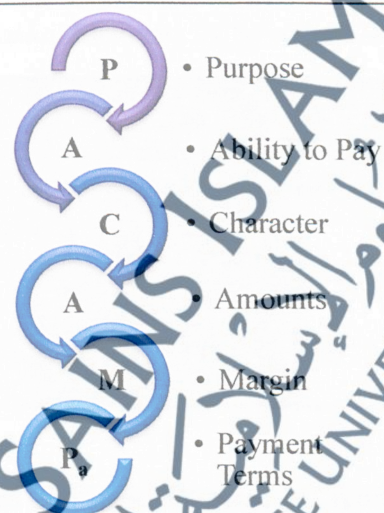
To extent this further, figure 6.1 below stated categories elements in credit evaluation process agreed by *Shariah* advisers and some views of different perceptions from different types of respondents in this research study:-

Figure 6.1 Categories Elements in Credit Evaluation Process agreed by *Shariah* Advisers



Based on the above figure 6.2 explained, there are no elements of five C's suitable for credit evaluation process for Islamic banks approach. The first come in evaluation process is element of "purpose", and followed by "ability to pay", "character", "amounts", "margin" and "payment terms". Therefore, it is suitable for Islamic banks Approach implements CAMPARI elements as topmost elements in making evaluation process. However, in this implementation of CAMPARI elements, the first come is "C- Character". All of the respondents in this research study agreed if change the terms used as make easier for Islamic banks yet in credit evaluation process.

Figure 6.2 PACAMP$_a$ Elements for Islamic Banks Approach



Based on the above figure 6.2 explain the flow of proposed synchronized elements of credit evaluation process in Islamic banks (PACAMP$_a$) elements as a purpose to make easier for Islamic banks to first evaluate the credit applicant by first looking up for the purpose followed by others elements stated.

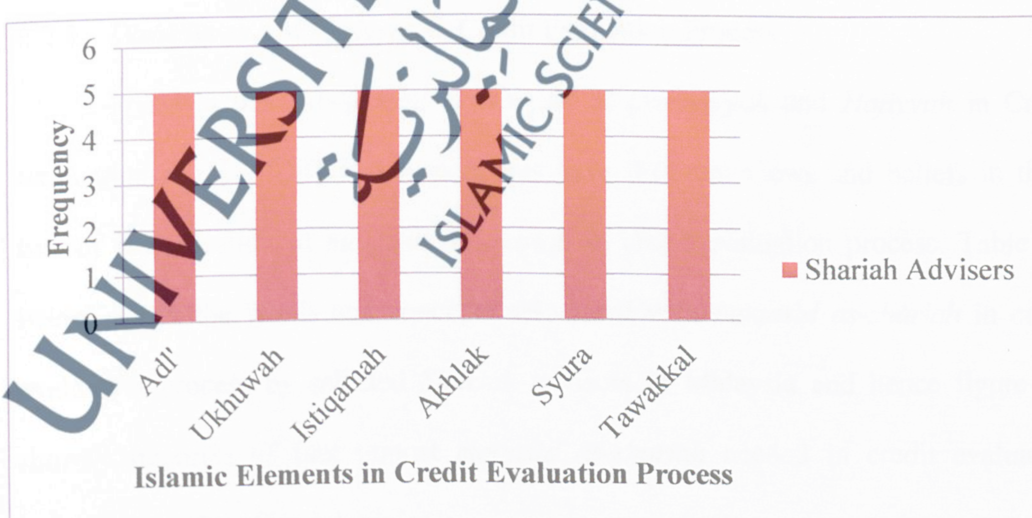
6.2.2 *Adl', Ukhuwah, Istiqamah, Akhlak, Syura* and *Tawakkal* Elements in Credit Evaluation Process

In this sub-section explained further the views and perceptions of *shariah* advisers on what and how the Islamic elements can be used in credit evaluation process. Table 6.2 shows words and concepts associated with *Adl', Ukhuwah, Istiqamah, Akhlak, Syura* and *Tawakkal* elements by selected *Shariah* advisers in Malaysia and hence figure 6.3 shows categories of Islamic elements in credit evaluation process agreed by *Shariah* advisers:-

Table 6.2 Words and Concepts Associated with *Adl', Ukhuwah, Istiqamah, Akhlak, Syura* and *Tawakkal* Elements by Selected *Shariah* Advisers

Words and concepts Associated with *Adl', Ukhuwah, Istiqamah, Akhlak, Syura* and *Tawakkal* Elements	*Shariah* Advisers	Total
Adl'	5	5
Ukhuwah	5	5
Istiqamah	5	5
Akhlak	5	5
Syura	5	5
Tawakkal	5	5

Figure 6.3 Categories of Islamic Elements in Credit Evaluation Process Agreed by *Shariah* Advisers



Based on the above table 6.2 and figure 6.3, these indicate that the Islamic elements are useful to implements in regards of evaluation process as a parameter to credit risk management. All of these elements agreed by all respondents as one parts of transparency in managing credit risk. These as experienced by respondents J and K:-

> *"Transparency is needed for banks as customers disclose all the information that bank need in financing decision. Adl', Ukhuwah, Istiqamah, Akhlak, Syura and Tawakkal Elements for me are necessary in pre-approval stage as to ensure that the value is added in financing decision." (Respondent J)*

> *"Since Islamic banks approach practices continuous relationship as well as share the risks so that one of the Islamic element is ukhuwah as this to accomplish a sustainable and continuous relationship. Besides that, Adl', Ukhuwah, Istiqamah, Akhlak, Syura and Tawakkal elements will also help them in making financing decision." (Respondent K)*

To sum up from above discussion, the Islamic elements- *Adl', Ukhuwah, Istiqamah, Akhlak, Syura* and *Tawakkal* gives good impact to the transparency for Islamic banks since they are practicing risks-sharing activities in business financing. Therefore, as neglect the issue in asymmetric information and moral hazard in time-line of financing tenor, these proposed elements can be value add the credit risk management strategies, or, if not, *ukhuwah* may be jeopardized.

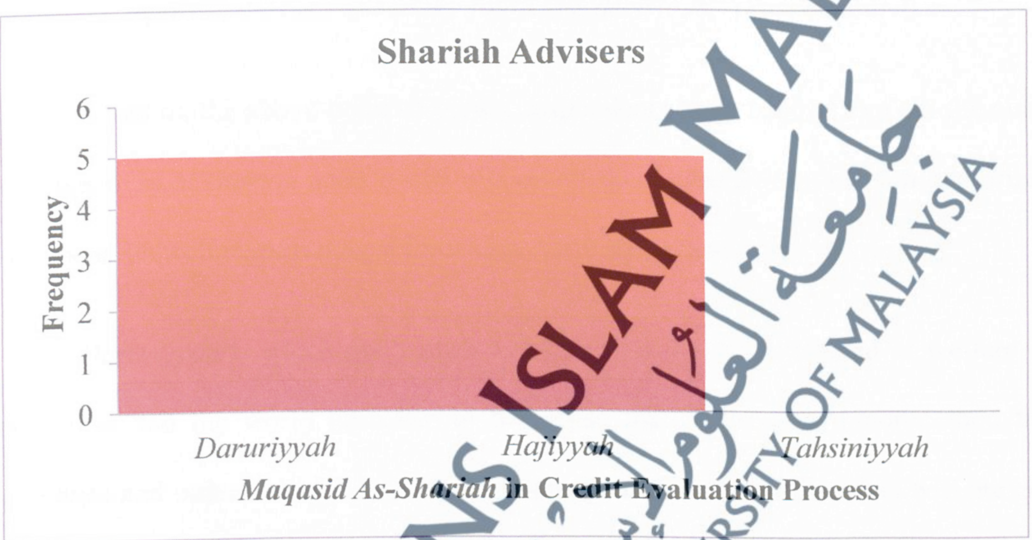
6.2.3 *Daruriyyah* and *Hajiyyah* in Credit Evaluation Process

Focus in this sub-section is analysis of *Daruriyyah* and *Hajiyyah* in Credit Evaluation Process. Different respondents have different views and beliefs in these two of classification of *maqasid as-shariah* in credit evaluation process. Table 6.3 below shows the words and concepts associated with *maqasid as-shariah* in credit evaluation process by selected *Shariah* advisers in Malaysia and hence figure 6.3 shows categories of first utmost *maqasid as-shariah* needed in credit evaluation process agreed by *Shariah* advisers:-

Table 6.3 Words and Concepts Associated with *Maqasid As-Shariah* in Credit Evaluation Process

Words and concepts Associated with *Maqasid As-Shariah* in Credit Evaluation Process	*Shariah* Advisers	Total
Daruriyyah	5	5
Hajiyyah	5	5
Tahsiniyyah	0	0

Figure 6.4 Categories of First Utmost *Maqasid As-Shariah* Needed in Credit Evaluation Process agreed by *Shariah* Advisers



Based on the above table 6.3 and figure 6.4 stated, in part of credit evaluation process, the two of *maqasid as-shariah* needed- *daruyyiah* and *hajiyyah*. All of the respondents viewed that the first two of classified the entire range of *maqasid as-shariah* is important in making financing decisions- the *daruriyyah* (the essential) and the *hajiyyah* (the complementary). These as qualified by respondents G, H, I and J:-

"For me, daruriyyah and hajiyyah seeks to validate all measures necessary for preservation from harmful in timeline of financing."
(Respondent G)

"The daruriyyah and tahsiniyyah are a very important category, as they are all-pervasive and relate to all the other masalih. So that, from my oipinion, it is good for Islamic banks to first analyze the concept of daruriyyah and tahsiniyyah before the financing is approved."
(Respondent H)

"Daruriyyah is the fundamental to hajiyyah and hajiyyah is the foundation of tahsiniyyah. Or in another word, tahsiniyyah (beautification) is the complement of hajiyyah (requirements) and hajiyyah is the complement of daruriyyah (necessities), and when the basic necessities of humanity (daruriyyah) were not met, it fall into the 'state of emergency' or Darurat. Hence, these two maqasid as-shariah are complimentary each other in timeline of financing as well as credit evaluation process."(Respondent I)

"as for my opinion, if Daruriyyah state is not met, customer will be in darurah situation. If Hajiyyah is not met, customer will be in Hajah situation. If a customer is in Hajiyyah state, it will be treated as a Darurah state. So that these two of maqasid as-shariah cannot be apart in the time of making financing decisions."(Respondent J)

Based on the above point of views, respondents have tried to explain the aims and objectives of *shariah* upon which it is established. *Maqasid as-shariah* comprises those benefits/welfare/advantages for which Allah has revealed His *shariah*.

Daruriyyah is which one's must and basic for the establishment of welfare in this world and the world hereafter in the sense that if they are ignored then the coherence and order cannot be established and *fasad* (chaos and disorder) will prevail in this world and there will be obvious loss (*al-khursan al-mubin*) in the world hereafter. Based on the analysis, *daruriyyah relates to five things:* Protection of Faith (*Din*), Life (*Nafs*), Posterity (*Nasl*), Property (*Mal*) and Reason (*'Aql*).

Besides, *Hajiyyah* aims at facilitating life or removing hardships. All such provisions of *Shariah* which aim at facilitating life, removing hardship, etcetera, are said to fulfill the *hajiyyah* (requirements). Besides, the permission for *qirad* (risks-sharing through financing), *musaqat* (profit-sharing/risks-sharing), *bai as-salam* (forward buying of a commodity which does not yet exist), which are apparently illegal interest bearing dealings, are the examples of *Shariah* provisions that aim at facilitating life or removing hardships in the life in this world. The exploitative, usurious and doubtful dealings and contracts have also been forbidden for the same purpose.

6.2.4 Credit Management (During and After the Lifetime)

Focus in this sub-section is analysis of credit management (during and after the lifetime). Different respondents have different views and beliefs in credit evaluation process as part of during and after the lifetime in terms of credit management in Islam. Table 6.4 below shows the words and concepts associated with credit management in Islamic way by selected *Shariah* advisers in Malaysia and hence figure 6.5 shows categories of first utmost during the lifetime in credit management and figure 6.6 shows categories of after the lifetime in credit management agreed by *Shariah* advisers:-

Table 6.4 Words and Concepts Associated with Credit Management in Islamic Way by Selected *Shariah* Advisers in Malaysia

Words and concepts Associated with Credit Management in Islamic Way by Selected *Shariah* Advisers in Malaysia	*Shariah* Advisers	Total
Kafalah	5	5
Ar-Rahnu	5	5
Hawalah	5	5
Muqassah	5	5
Wealth Heritage	5	5
Heirs	5	5
Baitulmal	5	5
Akhirat (Pay with Rewards and Sins)	5	5

Figure 6.5 Categories of First Utmost during the Lifetime in Credit Management

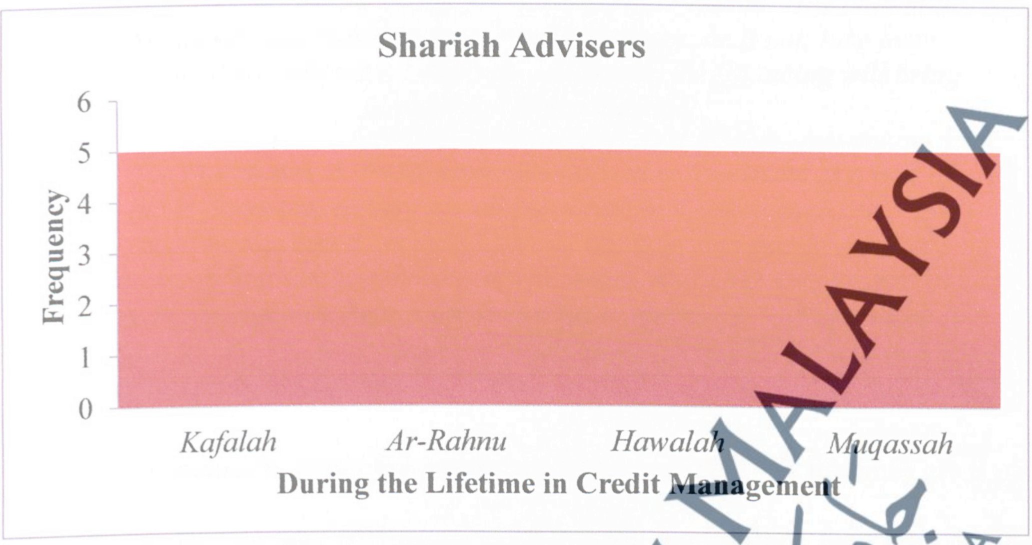
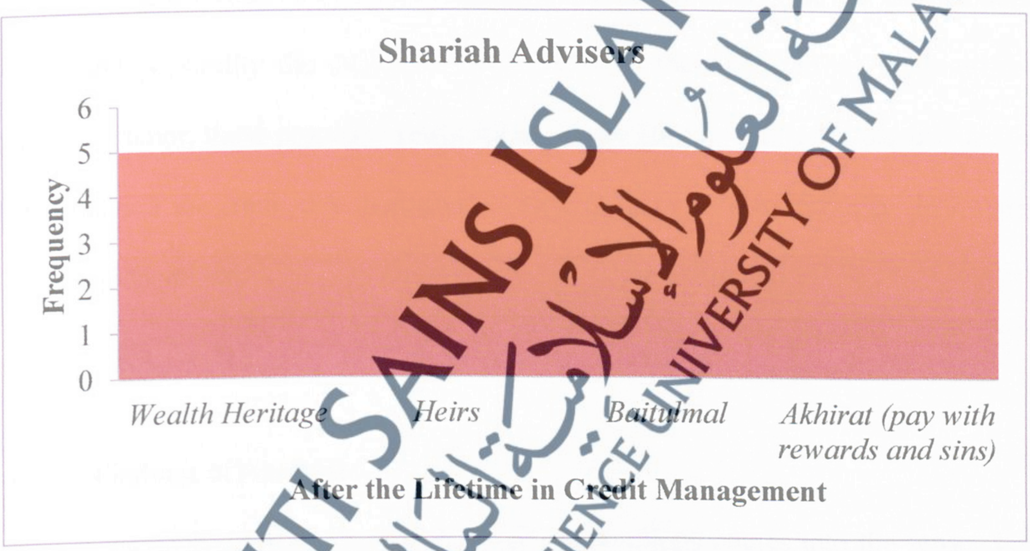


Figure 6.6 Categories of First Utmost after the Lifetime in Credit Management



Based on the above table 6.4, figure 6.5 and figure 6.6 stated, in part of credit evaluation process, the two phases in credit management is needed- during and after the lifetime. All of the respondents viewed that these two phases in the entire range of credit evaluation process is important in making financing decisions. These as qualified by respondents I and J:-

"For me, during and after the lifetime in credit management is important as seeks to certify all measures required for safeguarding from risky in timeline of financing-kafalah, ar-Rahnu, Hawalah and Muqassah and thus take from wealth heritage, or if not, take from heirs or if not take from baitulmal, and lastly, the financing will bring to akhirat." (Respondent I)

"The two phases in credit management is very important in a way of Islamic financing, as they are all persistent and relate each other and cannot be separated. So that, from my opinion, it is good for Islamic banks to first analyze the concept of during and after the life time in credit management before the financing is approved." (Respondent J)

As a conclusion, credit management (during and after the lifetime) gives good impact to the Islamic way of financing for Islamic banks since they are practicing risks-sharing activities in business financing. Therefore, as neglect the issue in default cases and possibility the customers will not fulfil their obligations in time-line of financing tenor, these proposed credit management (during and after the lifetime) can be value add the credit risk management strategies, or, if not, 'security' in financing may be jeopardized.

6.3 Findings of Analysis

The analysis from *Shariah* Adviser's perceptions comes into the sense. There are several main themes found. It includes of the current practices in credit evaluation process (five C's and CAMPARI elements), the Islamic elements that can be applied in credit evaluation process as parts of credit risk management, *daruriyyah* and *hajiyyah* in credit evaluation process and lastly, credit management (during and after the lifetime).

All of the respondents answered the research questions as to achieve the goals of research study. Likewise, all of the respondents positively associated credit evaluation process with the proposed of the Islamic elements that can be used in addition to five C's and CAMPARI. Some of these perceptions were linked to the positive values of credit risk management in first dimension (pre-approval) stage for Islamic banks approach.

Furthermore, it was found that the flow of proposed synchronized elements of credit evaluation process in Islamic banks ($PACAMP_a$) elements as a purpose to make easier for Islamic banks to first evaluate the credit applicant by first looking up for the purpose followed by others elements stated.

This research also found that a positive responses pertaining to the Islamic elements used in credit evaluation process especially for Islamic banks approach, since they are practicing *Shariah*-compliant financing and risks-sharing activities. Besides, this research also found that a positive value from all the respondent's responses viewed that the first two of classified the entire range of *maqasid as-shariah* is important in making financing decisions- the *daruriyyah* (the essential) and the *hajiyyah* (the complementary) plus with credit management in way of Islam (during and after the lifetime).

6.4 Chapter Summary

This chapter discussed furthers the analysis of phase II- *Shariah* Adviser's perceptions of a total of five (5) respondents as well as to validate the parameter. Subsequently, field work of section discussed. The next chapter will focus more on conclusions and recommendations including theoretical contribution.