



ADDED VALUE OF *IJARAH TAMWILIA* SERVICE IN *JORDANIAN ISLAMIC BANK* (CASE STUDY OF CONTRACT NO: 2012/500)

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ABSTRACT

This study is one of very few studies which has investigated case study of added value of Ijarah Tamwilia in Jordanian Islamic Bank. As result to search, Customer did not get added value as result to lose Islamic conditions fairly. Customer lost benefit of managing risk of Ijarah Tamwilia up to Islamic rules and face costs more than expect. There is gap between the Shania Supervisory Board and employee which comes as result to weak control beside there is no obligatory contract come from Shania Supervisory Board to employee. As the gap cause, customer losing contract benefit it causes to cancel contract accounting data because of losing the contract Islamic rules. Searcher recommended directing employee of Ijarah Tamwilia up to Islamic rules conditions practically which will effect on Ijarah Tamwilia service marketing and accounting because of its financing Islamic rules and Islamic investing rules to give fair added value. Employee has to work with accepted Islamic model.

Keywords: *Ijarah*, Islamic bank, Customer, Added value, Ignorance, Islamic rules.

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Contribution/ Originality

This study is one of very few studies which have investigated the gap between Islamic Supervisory Board and practically managing in the bank. It found and discussed Ijarah Tamwilia contract in Jordanian Islamic Bank. There was applying unaccepted contract by Fiqh by manager to achieve bank profit and managing risk.

1. INTRODUCTION

Ijarah Montahia Bettamleek or *Ijarah Tamwilia* is giving the same meaning. It is contract that bank buy asset as car, machine, land and building up to customer asking in order to rent installments it for years with price more than the market and own it after the end of the contract. It helps by reduce tax in some countries because of considering installments as expenses to reduce customer tax also it helps customer to own assets in future without use big capital in current time.

Customer accept service price when service benefits cover his need with suitable cost (Naji, 2000). Customer has two types of needs which are material needs and the spirits needs up to Islamic rules. Customers sign contract up to emergency need but by time he will compare *Jordanian Islamic Bank* service with other bank services locally and international also compare between service contract and ask Sharia board up to Islamic principles' to get spirits needs. Customer try to managing contract risk as the bank therefore he will accept the contract risk or transfer the contract risk or avoid dealing or cancel the contract after sign. The limit way of managing risk will cause problem

to customer up to his personal circumstance changing which affect on delay contract as installments. Bank understand the customer problem and increase grantee to face expect default also use more conditions to get his return. Islamic bank deal with flat as known subject than the Traditional Banks which deal with interest therefore Islamic Bank risks are less than Traditional Bank risks. This deferent must affect on Islamic bank conditions to be fairly with customer.

1.1. The Problem

The paper problem comes as result to find the added value of *Ijarah Montahia Bettamleek* contract no: (2012/500) to Customer in *Jordanian Islamic Bank*. The problem questions are:

- 1- Is the contract gives material needs and spirits needs?
- 2- What is the best way for customer to managing his contract risk?
- 3- What are the negative points and positive points can be depended to find added value of *Ijarah Montahia Bettamleek* service to customer in Jordanian Islamic Bank?

1.2. The Objectives

The search aims as follow:

- 1- To find whether the contract meets material needs and spirits needs.
- 2- To find best way for customer to managing contract risks.
- 3- To find added value of *Ijarah Montahia Bettamleek* service to customer in Jordanian Islamic Bank.

1.3. The Importance

This paper is important as result to analysis the *Ijarah Montahia Bettamleek* contract no (2012/500) in *Jordanian Islamic Bank*. It deals with real case study. It gives customers way to study contract before make the agreement because it explains negative points and positive points and ways of possible managing to reduce the customer risks after dealing. It gives idea about the negative affection on customer when Islamic ruler not is effective practically.

1.4. Literature Review

Ibrahim (1990) found that the Sharia Supervisory Board must participate with management in the development of all types of contracts, whether competent customers, shareholders, employees, and contract developing. This will impact on the preparation of the annual report of the Sharia Supervisory Board which supports the correct of Financial Statements. Sam (1994) found that control approach depends on the employee's ability to practically apply the Islamic rules in dealing with customer. Employee controlling himself will reduce the cost of errors and ensuring that the interests of the individual and the bank are done to gather fairly. Rahman and Abd-albaki (2005) explain the advantages of *Ijarah Montahia Bettamleek* for bank return and customer covering needs in investing assets in Syria. He found that it needs suitable disclosure to be accepted. Fauaz (2005) show the advantage of *Ijarah Montahia Bettamleek* to finance industry projects and commercial projects as way to get producing assets without big capital also help to increase investing for long term but there is need to make suitable accounting methodology for Islamic Banks up to Islamic rules. Muhannad and Jamal (2012) gave proposed model for *Ijarah* accounting treatment after they had criticized the accounting treatment offer by AAOIFI for violating the matching principle and lacking faithful representation. *Ijarah* accounting must meet the different between *Ijarah* contract and *Ijarah Montahia Bettamleek* up to Islamic accounting principles. Mirza (2014) had analysis *Ijarah Montahia Bettamleek* contracts and found the affection of deferent amount of installments and its time in order to show deferent managing risk up to deferent defaults.

Table-1. *Ijarah Montahia Bettamleek* contract no 2012/500 to own flat equal 128 square meters in Irbid – Jordan in 31/10/2012¹

Item no: (4) included details of operational lease Installments numbers, value and its possibility changing beside the time of buying	Items no: (1,2,3, 15, 16, 17,21, 22) included details of dealers and Grantee of the contract	Item no: (5) condition delay time to buy	Item no: (6): customer agree that the flat does not had any problem in its value and suitable to be used	items no: (7-12 and 18) show customer responsibility to protect the flat
As result to make contract in the end of the year, the first installment= 249 JD	Customer wife is the grantor with it owns of assts. It is work to get 150 JD every month the grantor (Ensure Solidarity) Bank has the right to sell the flat Bank has the right to transfer the using of flat to other customer regardless of the dealer customer accept and he will get note to leave the flat	all installment was sign as pay notes and by the condition when the customer has default to buy one installment the customer must buy all installments in the court	If there is problem the customer must ask the first seller to buy compensation and the bank must get this compensation to reduce customer installment in current case or in the future	To get the flat and protect it Customer must buy all government fees and tax Any improving in the flat or added is accepted but bank will not give any compensation Maintenance of must be done by customer and the bank will come to see it periodically Customer must buy electrical meter , water meter and heating meter beside buy its expenses
Every other installment= 309 JD	contract condition that the bank has the right to increase Installment value for the last buying installments or the future buying installments up to the Center bank			
Customer must complete buying (240) installments which equal 74100 JD to own the flat after 20 year.	Bank has authority on customer and his grantor (wife) to cut from there banking counts or other assets or take it to cover any default as result to consider it as way finance and give suitable reservation			
Practically Comment: First: accounting (309 * 240 = 74160 not 74100 JD this means the 60 JD are commissions not shown to customer Second: buying was related to the customer salary. It equals 480 JD and every month the bank take 310 JD this means 1 JD is other commission was not shown in the contract	Practically Comment: Grantee depend on family relationship and customer grantee getting salary because he is government employment without risk and the customer will get retirement salary also other conditions to get the bank rights by any way of managing the contract as own customer and grantor assets or selling flat or change the customer	Practically Comment: The contract include Documents that the dealing is lease and customer buying lease installments for 20 year but customer not own the flat until he finished buying installment and in spite of buying installment until now he cannot lease the flat to others as result to Bank Law condition and Jordan law lease conditions	Practically Comment: the bank is responsible to give customer the flat without problems but as result to give the customer proxy he becomes the responsible and the proxy without value to customer but it is obligatory to get the contract and show responsibility to protect the flat.	Practically Comment: expenses and efforts on customer while the bank gets grantee return as result to reduce all type of risks and costs.

Source: Searcher analysis contract no (2012/500)

2. CASE OF IJARAH MONTAHIA BETTAMLEEK CONTRACT NO: 2012/500 IN JORDANIAN ISLAMIC BANK

Jordanian Islamic Bank is obligated to apply Islamic banks rules of *Jordan Center Bank* without get loan return up to interest (*Reba*) or give loan with interest. The case include contract between the *Jordanian Islamic Bank* and individual customer looking for word to own residential flat in Jordan. Customer is a teacher and do not own 36000 JD but he think to own the flat up to the bank promotion as Islamic Bank. The bank gives customer offer to buy installments every month for 20 years but he should buy tax fees of owning the flat which equal 3500 JD. The customer was the proxy to complete procedures. He asked the bank to buy check equal 39000 JD to seller (A

Aref (2012).

Person not a company) and asked the seller to give him 3000 JD. He added 500 JD from his savings in order to buy tax of transfer owning to the bank. The contract applied the law of *Ijarah Montahia Bettamleek* no :(45) for the year of 2008. The *Ijarah Montahia Bettamleek* contract had the following conditions up to 27 Items as in the table.

Other Items are concentrate on documenting and attach files which are the order from the customer to get the flat, flat buying contract, owning documents and contract to own the flat by customer after buying installments (Commentator waiver) also customer has to give any document that the bank need.

3. THE CUSTOMER CASE AFTER FACE NEGATIVE POINTS

The customer in the contract no :(2012/500) faced problem after 4 years. He lost his savings and find that his salary and his wife salary just equal (150 JD + 480 JD= 630 JD) and family expenses is more than expected. The customer family includes wife, one boy and two daughters. They will live with 320 JD. Wife is pregnant and customer cannot work in other regular job because of his illness. As family, they decided to cancel the contract after they surprised by taxes as in the net table which means customer did not understand the contract:

Table-2. Taxes of customer contract no (2012/500) in 31/8/2016

Tax type	Tax amount	Last tax	Last fines	Courage discount	Net taxes and fines
And building tax	96 JD	288 JD	57.600 JD	0	441.600 JD
Knowledge Tax	19.20 JD	57.6 JD	5.760 JD	0	82.560 JD
The contribution of sewage	28.80 JD	86.400 JD	0	0	115.200 JD
All amount	144 JD	432 JD	63. 360	0	639.360 JD

Source: Tax document of the customer up to contract no (2012/500)

Table-3. Possibility of managing risk way of the *Ijarah Montahia Bettamleek* contract in negotiation with bank agent in 22/9/2016

Managing risk ways	Reason of acceptance	Reason of refuse
Cancel the contract	-	Bank has condition to protect his profit with grantee
Sell your assets and buy now big amount of cash to cover future installments and get agree to reduce installment value from 310 JD	-	If customer has suitable assets he would not ask for the bank services on other hand the problem of buying installment will be up to the bank benefit.
Sell your assets and buy now 37300 JD to get discount and own the flat	-	If customer has suitable assets he would not ask for the bank services
As owner to the flat benefit he asked to get acceptance to lease the flat to other lessee to cover installments	-	Jordan law does not accept this way and the bank will not accept on other hand flat lease vale just =200 JD.
Customer looking for other customer to transfer the contract risk by selling it to the other customer	-	Customer need suitable price to avoid losing and this way has difficult after flat price is reduced by reducing of the demand
Use flat in producing project as cutting hear	-	Need more expenses and improving of the flat and the bank is not responsible to reduce installment value also there is possible of loose

Source: Searcher discussed customer risks managing ways of contract no (2012/500) up to suggestions

The customer surprised as result to unexpected tax. He thought that the taxes is responsibility of the bank as owner and the apply tax is commercial type which is more than residential type. By time, customer buy 3500 JD in order to buy bank owning tax + 639.360 to buy taxes and fines on flat + buying 249 JD as first installment + buying (36 installments *310 JD) which equal as follow:

3500JD + 639.360 + 249JD + 11160 JD= 15548.36 JD

Solutions of this case is depended on the contract managing risk and the accepted way to find the real problem of contract to give added value to customer, see above table.

4. STANDARDS OF *IJARAH MONTAHIA BETTAMLEEK* CONTRACT

AAOIF is Accounting and Auditing Organization for Islamic Financial Institutions. It has been applied just in *Qatar* and *Bahrain*. It explains the Islamic banks standards.

As comparing between these standards and *Jordanian Islamic Bank* contract Items. *AAOIFI* shows *Sharia* (Islamic) standards for Islamic financial institutions that had been adopted in June /2009 the Islamic standard no :(9) explained standards to be accepted by Islamic bank law in *Qatar* and *Bahrain*. By comparing, There is agree with the contract items to refuse customer lease flat to other lessee as result to the bank and law condition. It agree with the way to give customer authority to choose the flat and complete procedures of the owning transfer to the bank and make the lease contract for (20) year obligatory also agree to obligate the customer to buy all installments in case he delay buying any current installment beside that customer has to buy installment even he leave the flat to the bank also the lease will not be ended by customer death therefore his wife will complete buying installments but *AAOIFI* divide maintenance and obligate the bank to cover bases maintenance of the flat with out details also it obligates to deal with fixed value to customer without increasing in case of customer default. [Accounting and Auditing Organization for Islamic Financial Institutions \(AAOIF\) \(2009\)](#).

AAOIFI conditions of maintenance expenses and known value for lease is better than *Jordanian Islamic Bank* contract also tax environment in *Qatar* and *Bahrain* is better than *Jordan* beside possibility to accept customer to lease the flat to other lessee.

The International accounting standards shows the way of *Ijarah Montahia Bettamleek* contract accounting return, expenses, assets and liabilities. The International financial report standards include standard no: (17) which explained the *Ijarah Montahia Bettamleek* accounting policies and disclosure. It is applied by many Islamic banks as in *Jordan* and *Kingdome of Saudi Arabian*. Standard no: (17/30) explained that installment value must be return up to standardized fixed ratio ([International Financial Report Standards \(IFRS\), 2003](#)).

5. THE FIQH STANDARDS OF *IJARAH MONTAHIA BETTAMLEEK* CONTRACT

Jordanian Islamic Bank has *Shania Supervisory Board*. It has to give the annual report of bank operation up to the Islamic banks law no: (28/2000). It watches the bank principles, contracts and the practically applied of the bank to meet Islamic rules. It just gets the contracts document from the bank and gives opinion. The opinion includes Islamic validity of the contract, distributed of profit, resource of bank accounts and loses. Its opinion just related to control but practically managers are responsible on Islamic rules implementation of the contracts, profit and lose. This means employee deal with the customer and responsible to give the Islamic contract or non- Islamic contract. *Sharia Supervisory Board* does not watch every contract but watch simples of contracts up to the directors' offer. It opinion and external auditor opinion are show just the opinion in general not in details as result to huge amount of contracts within many branches every hour. The report includes the item that "Located on the administration responsible for the implementation work in the bank according to *Sharia* Law and make sure of that. *Sharia Supervisory Board* has the responsibility to express their independent opinion based on their review of the bank's operation. It has the responsibility to prepare a report "[Annual Report of Jordanian Islamic Bank, 2015](#)).

As result to analysis the contract document, there was problem of applying non Islamic rule up to unknown price of installment. The unknown price will lead to conflict and forbidden in Islamic contracts which leads to canceling the contract and obligate the bank to get the flat and recalculate the installment as lease flat with the

market price which equal 200JD for the using. The contract included the item four that: " Entitled to the first team (the lesser) after one year at least from the date of delivery flat leased to reconsider the amount of return on the lease for a period / periods subsequent decade to increase the fare by developments in the rediscount rate of the Central Bank of Jordan increased. It will increase installment back and in future. This increasing notices to be sent from the first team to second team (lessee) without approval from second team". Youssef (1986) said price must be fixed in contract and must not be change up to time or default or it will cause *Reba*.

This condition causes ignorance of installment value and lead to conflict. Ignorance not accepted by *Fiqh*. Ignorance and unknown of price cause the contract cancel by *Fiqh*. Sharia Supervisory Board are responsible to cancel the contract no 2012/500 or cancel the items which not meet the Islamic rules in *Fiqh* because it is responsible on customer benefit and bank benefit as reason to deal between them. Alaziz (2000) said to cancel the contract even the employee said he did not know the *Fiqh* principles'. *Fiqh* is the standard of dealing. The major standard of price is to be limit in the contract.

Conclusions: as result to search, Customer did not find the Islamic rule benefit as result to the contract conditions. Conditions of the bank and environment in Jordan are affect negatively on the aims of the customer which led to reduce covering material needs as result to high cost and limit ways of customer managing risk also it affected negatively on the spirits needs up to Islamic rules. It gives the customer right to cancel the contract but law obligate customer and family wealth as grantee to buy installment. Added values of *Ijarah Montahia Bettamleek* service in Jordanian Islamic Bank not appear for the customer.

Recommendation: *Ijarah Tamwilia* service must meet the Islamic rules as fair condition and meet the spirits needs. Islamic rules will affect on of *Ijarah Tamwilia* service marketing as introduction, pricing, distributing and promoting. Therefore its financing rules and investing rules must be affected by *Fiqh* to give fair added value therefore there is need to make Islamic ruler effective on all contracts and direct employees by one model to be applied.

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