

## TOWARDS ACCEPTANCE OF ISLAMIC WEALTH MANAGEMENT

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**Abstract:** *Several misconceptions on Islamic Banking (IB), Islamic Finance (IF) and Islamic Wealth Management (IWM), as a subset of IF, presents a good opportunity to expose the values embedded in IWM. IWM with its root anchored to Maqasid Shariah(MS), is a readily available advisory platform that should be appealing to more than just Muslims once its ethical values are made explicitly tangible. This paper aims to highlight the holistic values within IWM so as to increase its acceptance by Muslims and non-Muslims. The paper which is conceptual in nature should add value to any full-fledged Islamic Banks in Malaysia that carry comprehensive products under its IWM platform. Matters highlighted in this paper can be used by financial advisors as a guiding principle to give comprehensive financial and non-financial advices to clients based on each client's life cycle and financial and hereafter goals.*

**Keywords:** *Ethical values; Maqasid Shariah; Holistic; Islamic Wealth Management*

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### Introduction

Islam is globally accepted and this positions the Muslim world to be a lucrative market segment as can be seen in the growth of Islamic banking in the Middle East, Asian, African and Western countries (Awais & Choudhary, 2018). Muslims are expected to economically and financially plan their lives to uphold the objectives of Shariah (Nyazee, 2000). Islamic financial planning that is aligned with the Maqasid Shariah (five goals of Shariah: faith, life, lineage, intellect and wealth) that supports the basic needs of Muslims to build wealth while simultaneously protecting the poor through a financial planning (FP) that should be more than just a financial platform; FP is crucial in giving meaning to each financial decision made by clients with differing financial status (Amalina & Junaina, 2013).

Wealth management (WM), a conventional financial service is similar to IWM that covers the financial planning, investment advice, portfolio management, accounting/tax services, and other financial services (Ting, 2017). WM also provides high net-worth individuals and families with comprehensive financial services to grow and sustain their long-term wealth. The financial crisis in 2008 however, had tarnished the image of financial corporations and

conventional WM services were then perceived to have made customers to lose more money (Ting, 2017). While this conventional wealth planning process focuses on individual's wellbeing, IWM with its Islamic broader perspective is a great alternative that looks at individual and simultaneously promotes social welfare. IWM not only consider clients' differences in terms of financial goals, time-horizon, degree of risk aversion, limitations, and liquidity status as highlighted by Wang (2007); but is a comprehensive planning process since in addition to all the technical process mentioned earlier, IWM is also expected to uphold social welfare without neglecting the competitive and sustainable advantage of its services (Al-abbadi & Abdullah, 2017; Wang, 2007).

### **Historical Concept**

The historical concept of Islamic Wealth Management (IWM) can be traced back to the primary source (Quran and Sunnah) and secondary source (Qiyas and Ijma) of Islam and there are many verses in the Quran and texts in the hadith that touch on the idea of wealth management. IWM is able to cover most of the financial needs of High Net Worth Individuals (HNWIs) using the wealth cycle (Cahyo, 2018). The Maqasid Shariah (MS) that encompasses the ethical values are dominant in the IWM advisory platform that covers the dual aspects of humans as well as the dual aspects of an organization; this is comprehensively covered through the wealth cycle from wealth generation/creation, accumulation, protection/preservation, purification and wealth distribution (Amanda, Possumah, & Firdaus, 2018).

IWM is supported by leaders who practice holistic approach while surrendering to the 'Creator' as the ultimate way to organizational management. This approach demands humility, responsibility and self-accountability in its decision making although the decision can be flexible and innovative to maximize outcome (Abdus, Kashif, & Amna, 2010). Charity aims to eliminate inequality in society, as money is transferred from the rich to the poor and charity is beneficial since it is a source for available funds to be supplied to the poor, forbids hoarding as well as eliminates extravagance and wastefulness (Kaleem & Ahmed, 2010). Numerous verses of the Quran urge Muslims to give charity and encourage the rich to contribute toward the welfare of the poor segments of society in the hope of getting the blessings of the Creator (Kaleem & Ahmed, 2010).

### **Ethical Values Embedded In Maqasid Shariah**

Financial system in Islam stems from four main sources, namely the Quran, Prophet Muhammad's sunna (practice), ijma (consensus) and qiyas (deductive analogy); Islam also prohibits riba (usury), maysir (gambling), gharar (ambiguity), investment in unlawful sectors and supports asset backing or profit-and-losses sharing financing. Objectives of Islamic law are to attain justice and social welfare for individuals, organizations as well as the society so everyone may unite to reach al-falah (happiness) while simultaneously preserve life on earth as required under the MS (Mansour, Ben Jedidia, & Majdoub, 2015). As mentioned by Chapra, MS does not specifically advocate profit maximization by individuals and organizations since profit in Islam must also be directed at ensuring spiritual health, justice, and fairness at all levels of human interaction (Chapra, 2000; Mansour et al., 2015).

Maqasid is an arabic word for goals or purposes; in an Islamic context, the term can refer to purposes of Islamic faith, zakat, pilgrimage and so on or of the holy Quran and Sunnah (words of the Prophet PBUH) (Shaya'a, 2013). Islamic financial institution has the obligation to safeguard the necessities of which will contribute to the advancement of human welfare,

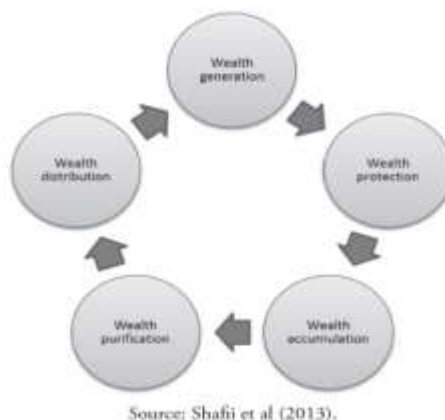
averts corruption, and boosts social and economic stability. The main purpose of shariah is for humans to safeguard the 5 basic elements or goals that are: the protection of ad-din (religion), preservation of an-nafs (life), al-‘aql (intellect), an-nasl (posterity) and the protection of al-mal(wealth) (Abdullah, 2015a). IWM that is governed by the MS is thus focusing on ensuring justice and equitability that can be supported through Islamic Banking.

### Misconceptions on Islamic Banking

IWM has to struggle with the misconceptions on IB and IF that is viewed of missing the ethical values in its practices. First of the misconception is a study by Mansour that states IB activities that adhere to Shariah and Islamic law alone cannot be proclaimed as being ethical (Mansour et al., 2015). The second misconception is that IB, IF and IWM is incorrectly perceived as being the same as conventional, differed only in shariah principles and avoidance of riba, maysir, gharar and all other exploitative elements (Abdul Aris et al., 2013). Third misconception is raised in a recent study that depicts IB as not being viewed as morally and socially responsible as Ethical Banking as per study conducted on the Islamic Bank of Bangladesh Limited (IBBL); IBBL had been proven to exceed all other Islamic Banks in its Shariah compliant nature but was perceived as being less socio-ecologically responsible as the ethical banking practiced by Triodos Bank in Europe (Khan & Raffick Nabee Mohamed, 2017). In addition, in a much earlier study, IB industry is perceived to be lacking in ethical aspect on corporate social responsibility (CSR) that is being administered through zakah distribution and other non-systemic charitable activities rather than seriously focusing on developing communities (Wang, 2007).

### Islamic Wealth Management (IWM) Cycle

Wealth Management which is a process of managing an individual or family’s assets of which the value can increase or decrease over time entails a process from protecting and saving wealth, generating and accumulating wealth, and to distributing wealth during transition and retirement age. IWM similarly has all the mentioned processes consists of Islamic financial planning and investment portfolio management; but the financial planning that is a subset of wealth management carries with it an Islamic financial planning processes covering wealth generation or creation, wealth protection, wealth accumulation, wealth purification, and wealth distribution as shown in Figure 1. IWM Cycle is basically an Islamic Financial Planning that covers the wealth cycle to cater to the financial needs of individuals (Amanda et al., 2018). The readily available IWM cycle or Islamic Wealth process are as per figures below:



**Figure 1: Components of Islamic Financial Planning**

In Islam, the whole processes or cycles shall be assessed not from the worldly implications but more so in the afterlife since mankind is only entrusted with wealth and each act shall be questioned by the Creator. Hence, each cycle needs to be given due considerations based on implications to the present life and the life after although most people will focus more on wealth accumulation (Bedoui & Mansour, 2015). Based on studies and understanding the requirements of Islam as a religion and the fundamentals behind the MS for Islamic institutions, products and services, IWM needs to not only be accepted through its wealth cycle from wealth creation all the way to wealth spending/expenditure and wealth distribution but must also be seen to protect the fundamentals and objectives of MS (Asad Ibrahim, Jamal Elatrash, & Omar Farooq, 2014; Bedoui & Mansour, 2015; Chapra, 2000; Dusuki & Abdullah, 2007); the MS covers aqidah (creed), `ibadah (worship) and akhlaq (morality and ethics) to promote the well-being of all mankind by safeguarding faith (din), human self (nafs), intellect (`aql), posterity (nasl) and wealth (mal) through a Shari`ah defined system of ethics and values covering all aspects of life (personal, social, political, economic, and intellectual) and thus preserving the public good: maslahah -daruriyat (the essentials), hajiyat (the complementary), and tahsiniyat (the embellishments). These wholesome views give rise to the need of having a holistic IWM Financial Planning Cycle that covers all the essential aspects of wealth in the Islamic perspective that is intrinsically ethical as per proposed Figures 2:



**Figure 2: Holistic IWM Financial Planning Cycle**

### **Wealth Creation or Generation**

Islamic scholars believe injustice will arise in the fractional reserve banking system; the defects highlighted have stimulated the search for an alternative system that is the full reserve system which is suggested by most renowned conventional and Islamic economists. The arguments, concept, and the analysis conducted on the full reserve system and support obtained from the Quran and Hadith show that this system attains the MS; hence, the full reserve banking system is recommended to be applied in the Islamic monetary system (Ahmad & Ismail, 2017). Similarly, IWM a subset of IF posts an ideal avenue for customers to create wealth in line with the ethical and Islamic requirements to sustain real economy and hence be beneficial to the society at large. Ibn Sīnā divided wealth management into two distinct phases: (1) creating or earning wealth of which is economically translated as income, and (2) utilizing or spending wealth earned which is termed as expenditure. In Islam, wealth

creation and wealth expenditure both must be managed in the ‘halal’ way as spelt out by Shariah (Ismail & Antonio, 2012).

### **Wealth Expenditure**

Unlike other religions, in Islam, wealth expenditure is equally important if not more than wealth accumulation; Muslims shall be assessed in the hereafter for every cent spent from the wealth bestowed by the Creator. Wealth consumption, the most neglected, is actually the most critical area of IWM that differs greatly from the conventional WM (Al-Abbadi & Abdullah, 2017). For consumption, Islam preaches its followers to tread the middle ground in between being thrifty to wasteful extravagance, to spend their wealth in lawful activities, to allocate and give portion of their wealth to the needy and to the society through obligatory zakah (obligatory yearly payment to specified 8 categories of beneficiaries) and voluntary charity (sadaqah, waqf), and to prioritize their spending to attain al-falah (success), now and hereafter (Al-Abbadi & Abdullah, 2017).

### **Wealth Accumulation**

Islam structures detailed rules describing the limits imposed on the accumulation of wealth. Both Islamic finance and Socially Responsible Investment (SRI) similarly advocate for individuals to invest their money through instruments that conform to their morals and beliefs (Bennett & Iqbal, 2013). It is known that the economic principle of Islam is to develop a prosperous, just and democratic economic and social structure; in Islam, all individuals of society irrespective of their beliefs and religious inclination can maximize their intellectual capacity, protect and promote their wealth, and actively contribute to the economic and social development of a society (Bennett & Iqbal, 2013). Generally, two of the most important goals to save are to finance expenses after retirement (retirement or life cycle motive) and to protect consumption against unexpected shocks (precautionary motive); these are to get prepared against risks that may impact earnings, health, and mortality. Planning for the unexpected dictates for a higher level of income and therefore, precautionary saving need to be larger for higher income (Wang, 2007). It is thus through IWM that equal importance for both accumulation and expenditure can be comprehensively and holistically addressed and advised to concerned clients.

### **Wealth Purification**

Financial planners are getting familiar with the term wealth purification arising from the ethical considerations embedded in IWM (Lahsasna, 2017). Purification of wealth can actually mean two things: first, it covers the purification of wealth through different rules prescribed by Shariah, through offering of wealth as zakah (alm), sadaqah (donation) etc and second, it covers the usage of wealth to purify something for example the purifying of a human being from his or her sins with the use of wealth given by the Almighty (Lahsasna, 2017). In Islam, since wealth is never solely owned by individuals, the concept of zakah or compulsory sadaqah is a concept that is well respected by all Muslims. Clarke et. al (1996) has clearly summarizes that zakāh is payable on genuinely owned wealth that is productive and are surplus assets that have been owned for a full year (Abdul Aris et al., 2013). Zakah planning is missing from the financial planning process and so is the cleansing process of non-Islamic revenues as required by Shariah (Abdul Aris et al., 2013). When the poor are assisted by the rich, the former will use the money to fulfil their basic needs of life; this will lead to higher consumption, of which will automatically spur the production cycle due to an increased demand in the market fuelled by an increase in the purchasing power of the poor.

This is super important in any economy since the poor always constitute a greater portion of any society (Lahsasna, 2017).

### **Wealth Protection/ Preservation**

Takaful uphold the values of mutual help, brotherhood and shared responsibility while eliminating shariah prohibited elements in its business operation and in all its activities. The Shariah objectives in takaful practices are the protection of the five fundamental elements in human's life and to achieve success or al-falah in this world and the hereafter through MS (Abdullah, 2015b). Takaful has legal principle that is termed as tabarru' that sets it far apart from conventional insurance since the framework of social responsibility and mutual cooperation and assistance are among the prominent underlying objectives of takaful industry that opens door to 'barakah' to all participants within the same takaful plan through the concept of fard kifayah or social obligation (Abdullah, 2015b). Takaful and MS were highlighted in the article by Dr.Syahida Abdullah on the risk management aspect (Abdullah, 2012); takaful therefore is an effective tool to lessen worry and fear, indemnify loss and damage, and provide protection on life, medical and property in accordance to Shariah (Abdullah, 2012).

### **Wealth Distribution**

The major challenge for the last wealth cycle is that many Muslims unfortunately still do not plan on how to manage their wealth distribution to avoid future conflict (Ab.Aziz et al., 2014). A remarkable feature of the Islamic doctrine is the redistribution of wealth to even out wealth accumulation in a society; another aspect of wealth distribution involves the distribution of one's wealth to the loved ones and those in need and to also generate economy as the whole. Estate planning in Malaysia has been neglected due to the misconception that it is only meant for the wealthy as many Americans who similarly feel that estate planning is only for the wealthy (Hayhoe, Beamish, Anong, & White, 2009). There are many studies that claimed Islamic estate planning was not widely practiced among Malaysian Muslims (Mohd Dahan, Ahmad, & Mohamad Basir, 2012). Malaysians especially the Malays are not conversant about Islamic estate planning and IWM that leads to a rising unclaimed asset and frozen estate in Malaysia (Isa, Othman, & Azizan, 2017).

### **Conclusion**

There are many articles on the concept of wealth in Islam. Islam is against hoarding (kanz) since it involves cumulative wealth or assets that are not properly linked with the real economy; in Islam, man is essentially entrusted with an 'amanah' (trust or custodianship) so mankind can dedicate their lives and possessions to the path of the Creator and to service the humanity.

Islamic based financial advisors are entrusted to draw up a financial planning that is holistic in nature for each of the customer covering earthly and after life deeds while ensuring sustainability of businesses and the goodness of society at large. Comprehensive and holistic IWM will path a structured way for advices to be given to customers, Muslim and non-Muslims, from the material, family, society and sustainability angles; more importantly, IWM is capable to cover the hereafter value for each and every financial decision made. In contrast, the capitalistic system only focuses on personal interests and allows activities to gain the monetary interests of the owners of business entities (Khurshid, Al-Aali, Soliman, & Amin, 2014). Therefore, managers, under IB are expected to act in the best interests of owners, for

now and hereafter benefits and Islam does not allow these benefits to be achieved at the expense of other stakeholders (Khurshid et al., 2014).

It is hope that further study can be done to ascertain the acceptance of IWM once its ethical values are made tangible and visible since IWM as a financial platform will add immense value to each individual, Muslims and non-Muslims, close family members and the society at large.

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