

The Non-Bank Islamic Mortgage: Prospect and Challenges

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Abstract: As a relatively new movement, the non-bank Islamic mortgage is interesting to be researched in Indonesia where most of the people are Muslims. This approach is believed to be able to facilitate consumers to have a house without having to worry about the usury and complexity in dealing with banks because the approach is simpler by not involving the bank. This paper is a conceptual paper describing the issue prevalent in some of the Indonesian cities, i.e. the non-bank Islamic mortgage. This paper tries to explore the future prospect of the practice as well as the challenges faced by this movement in the years to come. As the research in the field is currently uncommon, this paper is expected to open the gate for researchers to study the non-bank Islamic mortgage. The results of this paper put recommendations for the businesses, customers, governments as well as academicians and researchers in the field of Islamic mortgage.

1 INTRODUCTION

A house is perhaps the most expensive asset that human being can ever have. Thus, a house has always been one of the primary needs and every Muslim has to maintain this asset as the way of *hifzumul maal* (wealth maintaining). A relatively new approach in purchasing a house is a non-bank Islamic mortgage. This movement does not involve bank as in any common practice of home mortgage which in Indonesia is known as *Kredit Pemilikan Rumah* or KPR. In the practice of non-bank mortgage, a home buyer directly pays the installment to the developer or home seller without the bank or any financial institution as the credit lender. Currently, the non-bank mortgage approach is rather uncommon for most people and only certain Muslims in some cities already recognize it. To the author's best knowledge, the research in this field is still limited so this paper sheds the light by trying to explore the prospect and the challenges in the future in the context of Indonesia as a developing nation.

Aside from running the business in accordance with sharia rule, the businesses are now also trying to cater the potential customers who set a priority in the aspect of sharia compliance. The aspect of militancy in buying a house is one of the foundations for some Muslims because *Riba* (usury) must be highly avoided and the sharia banks are considered less sharia-compliant.

To cater the potential market prioritizing Islamic compliance in the home transaction, there has been a movement where some Muslim businessmen introduced a mortgage without a bank. This movement was first organized by a small group of people in some Indonesia cities such as Bandung and Depok. Often, they make online group such as WhatsApp group for introducing the movement to the people interested in buying a house but paying attention to the sharia guidelines. To the author's observation, this movement is still relatively new but it is quite common to be found in some websites, blogs, and social media.

This paper first introduces the practice of non-bank Islamic mortgage as outlined in the Introduction section. The following section discusses some literature in the field, followed by methodology. The core of the paper, namely the prospects and the challenges are presented in the findings section. The final section concludes the paper briefly.

2 LITERATURE REVIEW

Islam guarantees the wealth ownership of every Muslim as described in the holy Quran (*An-Nisa/4:5*). Acquiring a house needs most of the sacrifice in terms of money, efforts, time and attention. This is even worst for those who live urban or big cities as the land price increases more than the income does. The

research in the home mortgage is quite extensive as has been done by several researchers in some countries such as Hamid & Masood (2011) in Pakistan, Amin et al. (2009) in Malaysia, and Wulandari et al. (2016) in Indonesia.

Hamid & Masood (2011) concluded that there are five most important factors considered by customers in choosing Islamic mortgages, namely sharia principle, fast, efficient service, price, bank reputation, terms and conditions of product flexibility. According to their research, the sharia aspect is the first or most important.

Using cluster analysis, Amin et al. (2009) found that bank customers can be divided into three clusters, i.e. Cluster one consists of the customers who had a tendency to select mortgage bank on the basis of “service provisions”, cluster two consists of the customers who had a tendency to select mortgage bank on the basis of “elements of Sharia and Islamic principles”, and cluster three consists of the customers who showed a tendency to select Islamic mortgage provider on the basis of “pricing”. They suggested that the mortgage banks adjust their strategies in adapting the needs of each cluster. In the subsequent research, Amin et al (2017) examined three factors, i.e. service quality, product choice and Islamic debt policy and their influence on consumer attitude (Amin et al. 2017). They found that consumer attitude acts as a mediator of the relationships between service quality, product choice, Islamic debt policy and the Islamic home financing preference.

Wulandari et al. (2016) measured the pattern of contract agreement process in order to map numerous banks position in perceiving sharia conduct. They found that there are four dimensions affecting the contract agreement, namely fairness to the customer, country regulation, perceived business practicality and product characteristic.

Most of the research in Islamic home financing in Indonesia and other countries such as Malaysia deals with the common practice of home mortgage by involving a bank. The practice uses the contract of al-Bay’ Bithaman Ajil (BBA) and Musharakah Mutanaqisah Partnership (MMP). BBA is basically a murabahah contract based on buy-and-sell principle while the MMP is a combination of musharakah (partnership) contract and ijarah (rental) contract where the financier’s equity follows a diminishing balance method (Meera & Razak 2005). To the author’s knowledge, the research in the field of non-bank Islamic mortgage is still limited. Finding the similar research topic in other countries is difficult due to the relatively new approach of this non-bank Islamic mortgage. Or, the term of this non-bank

Islamic mortgage might not be the same from one country to another. The author so far only found the Islamic mortgage research involving banks or other financial institutions. Thus, this paper is expected to add the literature of Islamic mortgage especially the non-bank approach using Indonesia case. Besides, this paper is expected to raise the awareness of the readers, researchers, bankers, governments and business practitioners on the non-bank Islamic mortgage.

3 METHODS

This paper is a conceptual paper aimed at introducing the practice of non-bank Islamic mortgage prevalent recently in some cities in Indonesia. This paper is a beginning of the further research and thus uses a qualitative approach. The data are obtained from a secondary source such as websites and journal articles. The data are then synthesized to support the author’s idea regarding the prospect and challenge of non-bank Islamic mortgage in the context of Indonesia.

4 RESULTS AND DISCUSSION

4.1 Prospect of Non-Bank Islamic Mortgage

This section describes the prospect of the non-bank Islamic mortgage specifically in Indonesia context as a developing and the largest Muslim population country. The supporting data are obtained mainly via the internet including the websites, reports, news, and others. To the author viewpoint, the prospect of the non-bank Islamic mortgage is promising as can be seen from the following facts:

4.1.1 The rising of the buying-selling websites for home

The buying-selling websites provide a quite clear information to the potential buyers before making a purchasing decision. As in any e-business website, the potential customers may go to several websites to compare the price and collect as much as information which is beneficial for making a purchase decision. After getting on any of this website, the potential customers can simply type ‘riba’ in the search bar and they can find abundant information of the houses, lands, and apartments to be leased or bought. By

typing riba, the customers shall see many houses for sale by using non-bank approach. Some of the websites providing the non-bank Islamic mortgages are www.rumahdijual.com, www.rumah123.com, www.olx.com, www.lamudi.com, and www.rumah.com. By searching using the keywords ‘tanpa riba’ (without riba), the potential costumers shall find the houses which are offered by using non-bank approach.

The tagline used by the developers of non-bank mortgage is quite similar. They inform the customers that the transaction is “riba-free”, there is “no bank’s involvement”, “no penalty fee”, “no insurance”, “no BI checking (central bank checking)”, and “no Akad bathil (flaws agreement)”. The illustration of the advertisement is as follows:

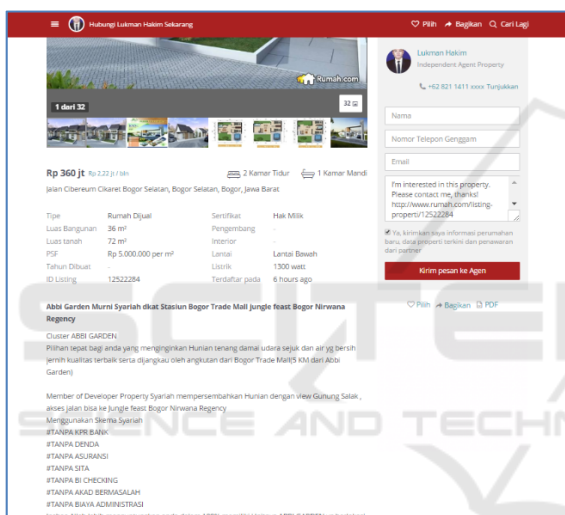


Figure 1: Screenshot of non-bank Islamic mortgage advertisement

Source: <http://www.rumah.com>, 2017

The selling and buying websites have been rising along with the development of other technological advancements such as affordable smartphones and faster internet access in most of the Indonesian cities. Aside from customers, the sellers can now with ease sell their houses, lands or apartments by using the websites. The sellers of the house using non-bank approach are usually the developers who care about the ‘Islamicity’ of conducting business. In selling the properties, they consider the compliance with sharia as the most important aspect so it must be put on the top list. Some of the developers or regencies found to sell the house by using non-bank approach is shown in Table 1.

Table 1: Developers/Regencies selling houses with non-bank approach

No	Developers/Regencies	City
1	AFARA FIRST HILLS	Bogor
2	Royal Orchid Villa	Cimahi
3	Cicarita Tower	West Bandung Regency
4	Cluster ABBI GARDEN	Bogor
5	Syamsa Dhuha Residence	Depok
6	Town House Casa Mabda	South Jakarta

Source: Author, 2017

Aside from those websites, the potential customers can now learn more about the house they are going to buy by asking and consulting to the association. There are two associations providing information about the housing and its sharia aspect. These associations are Developer Properti Syariah Indonesia (<http://www.dpsi.or.id/>) and Agen Properti Syariah (<http://propertisyariah.net/>). Association also educates the Muslims to use the mortgage which is riba-free by holding seminar or workshop.

4.1.2 The progressive movement of Islamic finance as a whole

The progressive movement of Islamic finance as a whole can be seen by the growing number of Indonesian banks opening the branch of their Islamic ones. According to the report of OJK in March 2017, namely “Sharia Banking Statistics”, there were 21 conventional banks which open the sharia business unit (UUS) and there were 13 sharia commercial banks (BUS). In fact, in the year 2005, there were only three sharia commercial banks. The same thing also happens to other financial institution, one of them is Islamic insurance. One of the issues prevalent recently is the opening plan of Sharia BPJS or insurance (BPJS ONLINE 2016). The foundation of Sharia BPJS is the awareness of Indonesian Muslims to have insurance product which is sharia-compliant. This product is initiated by the government. The work to finalize the sharia BPJS lies on their shoulders and if the product is completed, the fund collected will be able to support the share of Islamic finance on a national scale. Another thing is Islamic investment. Currently, several securities firms open the platform of Sharia-compliant investment allowing the investors to only perform selling the stocks included in Indonesia Sharia Stock Index (ISSI). The growing concern for investing in Islamic stock has a share in boosting people’s awareness in investing in an Islamic way. Currently, there are 331 Islamic stocks

listed in Indonesia Sharia Stock Index (ISSI) where the fund can be invested there.

4.1.3 More concerns in applying the sharia rule in lives

Some of the manifestation of the concerns with sharia rule are as follows: 1). the growing concern of by wearing hijab for women. Presently, the industry of hijab is skyrocketing. The number of hijab sellers and the number of potential buyers are also high. Again, technology has well facilitated this trend. Hijab business is so popular among Muslim women in Instagram, 2). In education, there are now increasing university or college opening the major or study program in Islamic economics and finance. In the last ten years, there only a few Islamic finance program study in Indonesia, 3) the most current movement which shows the rising awareness to Islam is the movement of 411 and 212 where the people supported the government and lawmakers to uphold the justice to the blasphemy case.

4.2 Challenges of Non-Bank Islamic Mortgage

4.2.1 Longer tenor

The first challenge for the non-bank Islamic mortgage is the tenor or the duration of installment which is quite short. The maximum duration is averagely five years whereas the regular mortgage or KPR may up to 20 years, depending on the buyer financial profile and preference. The short tenor of the non-bank Islamic mortgage may hamper some people who have limited monthly income. This short tenor is understandable as the developers want to maintain the liquidity. The home developers are not like banks who have more cash or liquidity, thus they set the tenor shorter. In order to cater more consumers who need longer tenor, this short tenor is indeed the challenge in the years to come. Thus, the developers in non-bank mortgage need to consider to lengthen the installment duration without hurting their liquidity.

4.2.2 Shorter monthly installment

Aside from the short installment duration, the next challenge is to have cheaper monthly instalment. Currently, the home developers of non-bank Islamic mortgage set the more expensive instalment to the buyers. This makes sense because the tenor is shorter so the instalment becomes higher, as explained in the

previous section. As an example, in the regular Islamic mortgage, a customer may pay IDR 3.7 million for 15 years for the house he bought worth 300 million. While in the non-bank Islamic mortgage, the monthly instalment may up to 7 million but in 5 years. In fact, both schemes may subject to the negotiation between the homebuyer and the seller.

4.2.3 Meaning stronger liquidity

To the author's observation, the sellers in the non-bank Islamic mortgage often do not have sufficient fund so their business scope is limited, compared to the banks. In fact, this movement is also relatively new so the player is only a few. To have more liquidity for an expansion, the developer of non-bank Islamic mortgage may partner with the fund owner but not the bank, for example, cooperative or pension plan.

4.2.4 Legal aspect

The next challenge is the assurance for customers. This aspect is important because the customers need the sense of safety, especially when spending much money like buying a house. Based on the observation on the buyers and sellers of non-bank Islamic mortgage, the trust between the two parties is the key. To evaluate the customer background, there is no thorough check like in a bank. Again, the trust and commitment between two are important. As the aspect of sharia compliant is the main factor, the honesty becomes the foundation of the transaction. The current transaction already involves the notary to record the transaction validity. Nonetheless, the government rule or statute has not been set in regulating the transaction. This is because until now, the home transaction is often done via bank.

4.2.5 Lack of Data (e.g. NPL, successful rate of the practice)

As the movement of non-bank Islamic mortgage is a new approach, the record of non-performing loan is not known yet. Knowing this number is important to evaluate the success of the movement. This is unknown because there is no report to the OJK (financial service authority). If the movement grows bigger, the author believes the government needs to set up rule regulating this movement for the sake of protecting the customer and also the seller or developer. Besides, this is also intended to protect the society as a whole.

4.2.6 Competition with banks

The last point made regarding the challenge of the non-bank Islamic mortgage is about competition. For the developer side, this movement is simpler because does not involve the bank. The developer may earn more profit because the money from the buyer directly goes to it. Indirectly, the developer cuts the role of the bank thus the developer becomes the competitor of the bank.

5 CONCLUSION

The non-bank Islamic mortgage has the chance to flourish in the years to come as shown by some facts explained previously. Nonetheless, this trend has also some challenges making the growth go slowly. This non-bank approach also puts the challenge to the Islamic banks as the developers become their competitors in terms of providing housing product. Thus, Islamic banks need to redefine their mortgage product in addressing the competition with the developers of non-bank Islamic mortgage. The government needs to make some regulations to protect both the developers and customers of non-bank Islamic mortgage. So, both parties can eventually perform a safer transaction. The academicians or researchers are highly encouraged to study this movement because there are still more things to be revealed in Indonesia and in other Muslim countries. Besides, the practice of non-bank Islamic mortgage is interesting because it is totally different from the sharia-compliant mortgage involving bank which is common in the academic world.

This research has some limitations. To note, this research is a conceptual paper without employing any primary data. Thus, the further research may distribute questionnaires to the home buyers using the scheme of non-bank Islamic mortgage to find more insight. In addition, this research is limited to the context of Indonesia, thus the research in other Muslim countries such as Malaysia and Pakistan may be conducted.

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