

# APPLICATION OF IJARAH AL ASHKHAAS IN PERSONAL BANKING – A MISSING OPPORTUNITY BY ISLAMIC BANKS OF PAKISTAN

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## Abstract

Islamic banking is expanding and same is the case with Islamic financial products. The banks are using different modes of Shariah based finance for the variety of their products and services. Ijarah is one of the most commonly used form of finance for the wide range of Islamic consumer and corporate products. There are two broad categories of Ijarah, namely Ijarah al Ayaan and Ijarahal Ashkhaas. Ijarah al Ayyan is the hiring of the usufruct of a fixed asset for example; car finance, house finance, plant and machinery finance etc. Second type of Ijarah is Ijarah al Ashkhaas (commonly known as service Ijarah) which is the hiring of usufruct of intangible goods or services.

Islamic banks opt it for financing personal banking products like education, medical, or travelling, etc. in several Islamic countries including Malaysia, Indonesia, UAE and Bangladesh. Contrary to this, Pakistan has twenty two Islamic banking institutions including five full fledged Islamic banks but there is not a single product based on service Ijarah facility. Therefore, the main objective of this study is to explore the need to develop service Ijarah based personal finance by Islamic banks of Pakistan. This paper also discusses the concept and application of Ijarah al Ashkhaas, the model and process of service Ijarah financing by banks globally and possible adoption of service Ijarah facility by Islamic banks in Pakistan.

**Keywords:** *Ijarah Al Ashkhaas, Service Ijarah, Personal Banking, Islamic banking,*

## **INTRODUCTION**

The Islamic banking industry is growing and the portfolio of the products and services is changing its composition with every passing day. Commonly used Islamic modes of financing include Musharakah, Mudrabah, Ijarah, Murabaha, Salam and Istisna. Service Ijarah is yet another attractive and lucrative option of Shariah based financing facility for all the stakeholders. The concept of service Ijarah is not new but based on Ijarah Al Ashkhaas and is well-known and regularly adopted by all civilizations until today. Islamic banks around the globe use it for financing their personal banking products like education, marriage, medical, or travelling, etc. in several Islamic countries including Malaysia, Indonesia, UAE and Bangladesh (Dariana & Ismanto, 2020; Purwanto, 2017). Islamic banking industry is developing very fast in Pakistan with wide range of product portfolios based on Musharakah, Mudarabah, Murabahah, Ijarah, Salam and Istisna, nevertheless not a single bank in Pakistan has the facility of service Ijarah financing for any of its products.

Service Ijarah financing facility is equally beneficial for all its stakeholders including Islamic banks, service providers and the consumers. Service Ijarah is a financing mode which does not affect the liquidity of the Islamic banks because they do not need to pay any cash to the customers but provide service to them against a deferred payment basis. The banks hire the services of the provider and sub-lease to the customer with agreed profit. This way, all three parties achieve their objectives. On the other hand, the service providers lease their products/services against real demand and a secure sale as bank has to purchase or hire the services first before selling it to the customer. So the conditions of Ijarah guarantees a genuine transaction of purchase/hire, and avoids a mere speculation. And last but not the least, service Ijarah provides the prime benefit to the general customer who gets required service now for a deferred payment in future.

Islamic banking is quickly flourishing in Pakistan. Its branches network and the product portfolio are increasing very fast. State bank of Pakistan is working round the clock to provide interest free banking system throughout the country. There are five full fledged Islamic banks providing Shariah compliant consumer and

corporate products with a wide variety of Islamic financial products and services based on Musharakah, Mudarabah, Murabaha, Ijarah, Salam and Istisna. Despite the fact that Service Ijarah is equally beneficial to all of its stakeholders, not a single bank in Pakistan has the facility of service Ijarah financing for any of its products. Therefore, the main objective of this study is to explore the need to develop service Ijarah based personal finance by Islamic banks of Pakistan. This paper also discusses the concept and application of Ijarah al Ashkhaas, the model and process of service Ijarah financing by banks and possible adoption of service Ijarah facility by Islamic banks in Pakistan.

### **The Origin and Concept of Service Ijarah**

Ijarah is the mode of finance which is widely allowed by Islamic jurists and scholars. The term Ijarah is derived from Al-ajir which means compensation. Technically, Ijarah is referred “to give something on rent”. There are several Quranic verses that jurists have cited for the permissibility of Ijarah contract. Most frequently quoted verse is related to the Prophet Musa (a.s) who was hired by Hazrat Shoaib (a.s) for some time. Allah says in surah Al-Qasas “Said one of them: O father, hire him on wages, for truly the best to employ is a strong and trustworthy man”. He said: “I intend to wed one of my daughters to you, on condition that you work for me for eight years, and if you complete ten full years, that will be a grace from you” (Quran, 28:26-27). This verse is an obvious sign of Ijarah as Musa was recruited for a particular period for time with explicit compensation. Another verse imply that there is an obligation of a father to pay reasonable wages to the women who breastfeed his child, in surah Al-Talaq Allah says “Then if they suckle to the children for you, give them their due compensation” (Quran: 65:6). This verse clearly indicated the notion of Ijarah where wages are given as a consideration of the hired services.

The above Quranic verses demonstrate that Ijarah or hire contract was commonly practiced and necessity in the society of all ages. Similarly, the evidence of hiring the worker and paying the wages (ajir) can also be derived from the practice of Prophet Muhammad (s.a.w). Prophet Muhammad (s.a.w) says, “Pay the hired worker his wages before his sweat dries” (Sunan Ibn Majah, 3:399, Hadith no.

2443). Also, Ibn Abbas narrated that the Prophet (s.a.w) had cupping performed on him and gave the cupper his wage (Sunan Ibn Majah, 3:238, Hadith no. 2162). All above practices by Prophet (pbuh) show the validity of hiring contract which is also a part of Ijarah contract. Hence, the Ijarah contract is clearly permissible and valid contract endorsed by Quran and Sunnah.

Mansoori (2005, p. 234) mentions two broad forms of Ijarah i.e. Ijarah Al Ayyan and Ijarah Al Ashkhaas. Ijarah Al Ayyan (also called Ijarah Al Ashya) refers the Ijarah that is related to the transfer of usufruct of fixed asset on rent from lessee (mustajir) to the lessor (mujiir). Whereas, in Ijarah Al Ashkhaas (also called Ijarah Al Amal), the services of a person is hired against some compensation or wages. In this case, the employer is called mustajir and the person whose services are hired is called ajir. Ajir can be an educator, engineer, carpenter, architecture, consultant, or any other person who can render his services. According to Nyazee (2005, p. 281) the hiring of the services can be further classified into two types i.e. Ajir Khass (a bounded worker) and Ajir Mushtarik (a common or independent worker). In Ajir Khass, the worker works exclusively for his employer as a servant or employee. He cannot work for other persons (AAOIFI, 2015, p. 845). He is hired for specific duration and for bounded services (Saleem, 2013, p. 53). Whereas in Ajir Mushtarik, the worker is not bound to work for one employer only, but he can work for other employers also and the employer cannot stop them for working others (AAOIFI, 2015, p. 845; Saleem, 2013, p. 54). For example; a tailor, doctor, mechanic, technician, or a consultant (Dar & Akram, 2006, p. 363).

The first form of Ijarah, Ijarah Al Ayaan is the most popular and commonly used by almost all the Islamic financial institutions for the lease of the fixed assets. This form of financing is widely available for consumer financing as well as for corporate financing because of its asset based nature. Example of such products include financing of car, house, plant, machinery, equipment, fleet, etc. The second form of Ijarah, Ijarah al Ashkhaas (also called service Ijarah) is newly adopted and infrequently use by Islamic banks for consumer financing particularly for education, marriage, medical, travelling plans or retirement benefits of their consumers.

Kahf and Mohomed (2017) define Service Ijarah as a mode of finance in which an Islamic bank purchases a service or the usufruct from its provider and sells these services to the customer on credit in return of cost plus markup. Malaysian Accounting Standard Board (2020) mentions that Ijarah may be contracted for the usufruct of a service or an intangible items like Ijarah based financing for education, medical, travel, etc., in which a bank would hire the usufruct of service from service provider and then sub-Ijarah that usufruct to a customer. Likewise Kahf (2013) indicates that Service Ijarah is a contract of hiring a service provider to perform some service, or hiring a service provider along with the assets or acquiring a usufruct of an asset against some salaries or fees. Kahf (2013) further clarifies that employing a person to perform some task is the Ijarah of a human service whereas, obtaining the services of an assets along with its operator is a Service Ijarah. Following table 1 shows several Islamic banks that offer service Ijarah for personal banking including finance for higher education:

**Table 1***Personal Finance through Service Ijarah by Islamic Banks – Worldwide*

Country	Bank	Product Name
Oman	Alizz Islamic Banks	Medical, Child's Education, Wedding <sup>1</sup>
Malaysia	Affin Islamic Bank	Education Finance <sup>2</sup>
Ajman	Ajman Bank	Travel, Medical, Child's education, Child's wedding <sup>3</sup>
Oman	Maisarah Banking	Islamic Travel, Child's education <sup>4</sup>
Abu Dhabi	ADCB banking	Islamic Education Ijarah <sup>5</sup>
Bangladesh	HSBC	Education, wedding, medical Finance <sup>6</sup>
UAE	Dubai Islamic Bank	Medical, Travel, Wedding, Child's Education <sup>7</sup>
Jorden, Lebanon	ICS Bank Islamic	Travel, health, education <sup>8</sup>
UAE	Arab finance house	Hajj and Umraj finance, Child's education <sup>9</sup>
UAE	Al-Hilal Bank	Travel, child's education, Medical <sup>10</sup>
Nigeria	Jaiz bank PLC	School fees, rent and medical <sup>11</sup>
Oman	Sohar Islamic bank	Education, travel, medical and marriage finance <sup>12</sup>

**Source: Websites of the banks**

<sup>1</sup><https://alizzislamic.com/Personal-Banking/Finance/Personal-Finance-Services>

<sup>2</sup><https://www.affinislamic.com.my/Consumer-Banking/Consumer-Financing-i/AFFIN-EDUCATION-FINANCING-i.aspx>

<sup>3</sup><https://www.ajmanbank.ae/site/service-ijarah.html>

<sup>4</sup><https://www.maisarah-oman.com/Default/Finance.aspx>

<sup>5</sup><https://www.adcb.com/en/islamic/personal/finances/personal-finance/banking-on-education>

<sup>6</sup><https://www.hsbc.com.bd/1/2/retail-banking/other-products/amanah-personal-finance-services-ijarah>

<sup>7</sup><https://www.dib.ae/personal/personal-finance/services-ijarah>

<sup>8</sup><http://www.icsfs.com/en/products/service-ijara>

<sup>9</sup><https://www.afh.com.lb/english/personal/financing/elm-nour>

<sup>10</sup><https://www.alhilaalbank.ae/en/personal/finance/personal-finance/service-finance.aspx>

<sup>11</sup><https://jaizbankplc.com/jaiz-product-and-services/private-banking/ijara-service/>

<sup>12</sup><https://www.soharislamic.com/personal/financing/ijarah/>

### **Conditions of Service Ijarah (Ijarah Al Ashkhaas)**

The following are the general terms and conditions for a valid service Ijarah contract:

1. The first pillar of the contract is the consent of the contracting parties (Ahmed, 2011, p. 25). Consent includes both the offer (ijab) and the acceptance (qabul) (Dar & Akram, 2006, p. 364). The acceptance must not have any errors, coercion, duress, or misrepresentation and fraud. Therefore free consent of the parties is required to enter into the contract.
2. The contracting parties have legal capacity to enter into the contract i.e. parties must not be minor, debtor or drunk (AAOIFI, 2015, p. 845; Ahmed, 2011, p. 25; Dar & Akram, 2006, p. 364).
3. The object of a valid contract must be legal, permissible and known to both the parties (Ahmed, 2011, p. 25; Dar & Akram, 2006, p. 366).
4. Purpose and consideration: All contracts must have both the purpose and the consideration. The purpose and consideration must be permissible and valid. Moreover, the purpose of the contract should be continue because if the purpose come to an end, the contract become cancelled (Ahmed, 2011, p. 25).
5. For a valid Shariah approved contract, there must not be the involvement of Riba, Gharar and Maysir in any element or any stage of the contract (Ahmed, 2011, p. 30; Ayub, 2013, p. 281).

The following are the conditions exclusively related to service Ijarah:

### **Conditions regarding the Services/Usufruct**

1. The nature and scope of the services to be performed must be explicitly determined at the time of the contract (AAOIFI, 2015, p. 847; Ayub, 2013, p. 281; Dar & Akram, 2006, p. 364; Mansoori, 2005, p. 240; Saleem, 2013, p. 54). In this regard, the name of the service provider, details of the required service, and dura-

tion of the service must be clearly known to all the parties in the contract.

2. Moreover, the service or the work should be permissible in Shariah(AAOIFI, 2015, p. 847; Ayub, 2013, p. 281; Mansoori, 2005, p. 237; Saleem, 2013, p. 54).

The services should not involve any Haram activities like the contract of killing people or the performance of black magic(Kahf & Mohomed, 2017).

3. Also, the performance of a service must not include a mandatory obligation like to offer someone's prayers(Mansoori, 2005, p. 237; Saleem, 2013, p. 54). In this case, the service provider is not entitled for wages because these are mandatory performances. Further, the hiring of services must not only be halal but also be moral and ethical, like hiring of services for begging, child labor, etc.(Dar & Akram, 2006; Kahf, 2015; Mansoori, 2005).

4. The service required should be definite and clear cut in terms of price, form, outcome and time period and indicates an explicit span and definitive scope of the service (Kahf & Mohomed, 2017; Saleem, 2013, p. 55).

5. The Service Ijarah contract must also be according to the principle of realism. According to Kahf (2006), the principle of realism means that "all financing contracts must be founded on real, in contrast to presumed or deemed exchanges of things or services". This implies that the service must have some value so that it provides value adding and the contract should have a real and bona fide intention to provide the intended service(Kahf & Mohomed, 2016). That's why Islamic banks are entitled to a return on the service Ijarah contract by purchasing and providing the value added service (Kahf & Mohomed, 2017).

### **Conditions for the rent/pay/compensation**

1. The rent or compensation should be specified fixed (AAOIFI, 2015, p. 849; Dar & Akram, 2006, p. 365; Mansoori, 2005, p. 241).

2. The rental / compensation, subject to the mutual agreement of the parties, can be determined on the basis of aggregate cost incurred for purchase of the service including processing, documentation, etc. charges (Ayub, 2013, p. 283).

3. When the Ijarah agreement is finalized, lessor cannot increase the rent/compensation unilaterally (AAOIFI, 2015, p. 850; Ayub, 2013, p. 283).

4. Rent becomes due on the attainment of the usufruct or the ability of the lessee to use the usufruct of the services (AAOIFI, 2015, p. 849; Dar & Akram, 2006, p.



365; Mansoori, 2005, p. 238). However, advanced rent can be taken when the availability is ensured for the period of the lease (Ayub, 2013, p. 282).

5. The rent/pay can be determined for the work as a whole so that the service provider becomes entitled to it after doing all the work, or it can be determined in installments and the service provider becomes entitled to each installment at the relevant stage of the work done (AAOIFI, 2015).

### **Conditions for the Bank**

1. For the validity of service Ijarah, the bank cannot purchase or get the right of the service before the client's application. The customer selects the services and the service provider first, and then the bank, as a financial intermediary, can get the right to that service from the service provider upon the request of the customer. This condition must be fulfilled before the promise to purchase those services (Kahf & Mohamed, 2017).

2. Islamic banks are not permitted to sell the service before hiring of it until or unless the service is well defined, pre-determined and standard service and available at the specific time in future (AAOIFI, 2015, p. 848; Dar & Akram, 2006, p. 364; Kahf & Mohamed, 2017).

3. At the same time, the bank cannot own the prior right of service on the plea that bank will hire the service and execute the transaction as per pre-agreed terms and conditions by itself or through another party (Kahf & Mohamed, 2017).

4. In case, if the service provider is not in existence at the time of the Ijarah contract, then the second agreement of sale between Islamic bank and customer cannot be enforced until the service provider comes into existence (Resolution No 195/196, 2013) by OIC Fiqh academy (Kahf & Mohamed, 2017).

5. The Service Ijarah contract must also be according to the principle of realism. According to Kahf (2006), the principle of realism means that "all financing contracts must be founded on real, in contrast to presumed or deemed exchanges of things or services". This implies that the service must have some value so that it provides value adding and the contract should have a real and bona fide intention to provide the intended service. That's why Islamic banks are entitled to a return in the service Ijarah contract by purchasing and providing the value added service.



### **Conditions for the Service Provider**

1. The service provider (the institution) should own the service and have the ability to deliver it. Hence, it is impermissible for the institution to sign a contract with the client before it possesses the service and becomes in a position to perform the actual or constructive delivery (AAOIFI, 2015, p. 848).
2. There must not be an earlier planning of the usufruct between the customer and the service provider prior to the execution of the sale contract between the Islamic bank and the service provider otherwise it would be a financing transaction of prior services (Kahf & Mohamed, 2017).

### **Termination of Ijarah**

Service Ijarah contract may come to an end if the following conditions are met:

1. If the asset is not capable of giving the usufruct (AAOIFI, 2015, p. 852; Saleem, 2013, p. 60)
2. If the lessee or tenant fails to pay the rental or adhere to other conditions (AAOIFI, 2015, p. 846; Saleem, 2013, p. 60)
3. If the service provider is not be able to provide the usufruct. (AAOIFI, 2015, p. 852; Saleem, 2013)
4. If either of the parties dies/ usufruct destroyed (Ayub, 2013, p. 283; Saleem, 2013, p. 60)
5. By mutual consent of the parties (AAOIFI, 2015, p. 853; Ayub, 2013, p. 284; Saleem, 2013, p. 60)
6. Lapse of the agreed on time (Saleem, 2013, p. 60)

### **The Model of Service Ijarah for Personal Financing**

Generally, the contract of service Ijarah includes following steps as depicted in figure 1:

1. The customer in need of personal finance for travel, medical, wedding or education requests the Islamic bank for the service Ijarah financing. Before this, customer requests the service provider to provide him/her the service confirmation letter along with the details.
2. An application form is submitted by the customer to the bank with the undertaking

to buy the requested service. Usually the customer already selects the service provider and the required service before applying for finance from the bank. The customer provides service details, specifications and other provisions to the bank. At this stage, the customer discusses the terms and conditions for the Service Ijarah facility with the bank. This includes rate of profit, payment mode, tenure etc. A promise to purchase or hire the requested service is also required by the customer from the bank, when the bank purchase such service.

3. The credit department and Shariah committee of the bank review the customer's application. After authenticating the quotation invoice, the bank forwardsthe quotation priceand a service confirmation order to the service provider to purchase/hire the required service.

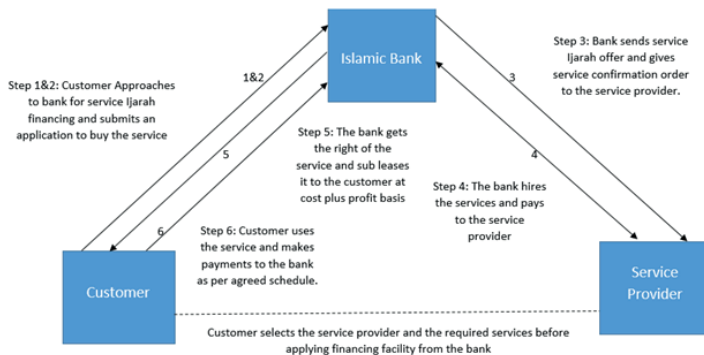
4. When the service provider accepts the quotation and service confirmation order, it issues the invoice in favor of the Islamic bank. However, if there is a Wakalah contract between customer and bank, and customer act as an agent of the bank, then the same invoice is issued to the customer. After receiving the invoice, the bank pays quoted price to the service provider and purchases/hires the requested services.

5. At this stage, the bank gets the full rights of the service. It can sub lease it to the customer against anaforementioned well-defined service fee payment or the contract price. The contract price must be on cost plus margin basis and payable as per agreed payment plan.

6. Now the customer uses the purchased/hired services and makes payment as per agreed schedule.

**Figure 1**

Procedure of Service Ijarah Financing for Personal Finance (Source: Author)



There are certain documents required for the service Ijarah contract. Most of the documents are same in all banks. A list of most common documents are as follows:

- a) Application form of service Ijarah from the customer to the bank.
- b) Standard Offer letter from the bank to the customer including detailed term and conditions regarding subject matter, price, tenure, any collateral or guarantees, etc.
- c) Service purchase order from the bank to the service provider
- d) Acceptance letter from the service provider
- e) Wakalah agreement between the bank and the customer
- f) Service Ijarah agreement (sub lease) between the bank and the customer
- g) Statement of receipt of the service by the customer to the bank.

### **Personal Financing by Islamic Banks of Pakistan**

Islamic banks in Pakistan are offering various different financial products to their customers that are Shariah compliant and Shariah based (Usmani, 2007). These services are for the development and welfare of the society at large (Naqvi, Abbas, & Ahmad, 2016). These include a wide range of product and services that cover most of the aspects of consumer banking, corporate banking, investment banking and SME banking for example, bank deposits, home remittances, home financing, car financing, plant and machinery finance, working capital finance, letter of credit facility, short term and long term finances, project finances, financial advisory services and so on and so forth. These Islamic product and services are based on different short term and long term Islamic modes of finances that are Shariah approved. These Islamic modes of finance include Mudarabah, Musharika, Mura-baha, Salam, Istisna, Ijarah, Muajjal, and Diminishing Musharika etc. (Ahmad, Awan, & Malik, 2011; Ahmed, 2014; Muhammad Taqi Usmani, 2002).

According to Islamic Banking Bulletin (June, 2020) issued by the State bank of Pakistan, here are total twenty two Islamic banking institutions including five full fledged Islamic banks and seventeen conventional banks with standalone Islamic banking branches. Branch network of Islamic banking industry stood at 3,274 (spread across 122 districts) by end of June 2020, with total assets of Rs3,633 billion. Overall market share of Islamic industry is 15.3%. The bulletin further

shows that the total financing comprises 31% Diminishing Musharakah, 21.2% Musharakah, 13.4% Murabaha, 10.5% of Istisna, 5.1% Ijarah, 1.8% Salam and 17% other modes of financing by Islamic banks of Pakistan. Despite this impressive growth in the product portfolio, Islamic banks are not offering a single product based on service Ijarah. Consumer financing includes car financing, home financing and personal financing. Personal financing exclusively includes financing for education, medical, wedding, travel and retirement benefits. The following table 2 depicts different personal banking products that are being offered by Islamic banks. These all products are based on long term savings and investments for the children of customers and for themselves.

**Table 2**  
Islamic Banks in Pakistan – Personal Finance Products and Services

Name of the Islamic Bank	Name of Product	Mode of Finance	Purposes
1 Meezan Islamic Bank	Meezan Kafalah	<i>Mudarabah</i> and <i>Wakalah</i> <sup>1</sup>	<i>Takaful</i> based saving and investment plan for child's education and wedding, hajj and retirement.
2 Dubai Islamic Bank	Personal Finance	<i>Musawamah</i> <sup>2</sup>	Education, medical, marriage or settlement of conventional debt.
3 Bank Islami	Bank Islami Takaful Plan	Saving and Investments in <i>Sukuks</i> , Deposits, stock and mutual funds <sup>3</sup>	Education, wedding and retirement plan
4 Al Baraka bank Pakistan Limited	Rahnuma travel services	Saving and Investment plan <sup>4</sup>	Travel facility only
5 MCB Islamic	No Plan available for personal finance <sup>5</sup>		

Source: Websites of Different Islamic Banks

<sup>1</sup> <https://www.meezanbank.com/meezan-kafalah/>

<sup>2</sup> <https://www.dibpak.com/index.php/consumer-financing/personal-finance/>

<sup>3</sup> <https://bankislami.com.pk/takaful/>

<sup>4</sup> <https://www.albaraka.com.pk/retail-banking/consumer-finance/rahnuma-travel-services/>

<sup>5</sup> <https://www.mcbislamicbank.com/consumer-finance/micar/>

Meezan bank offers Meezan Kafalah, a personal finance plan for customer's child education and wedding, hajj and old age benefits plan. This is a savings and investments Takaful based plan which works on Mudarabah and Wakalah

concepts. Meezan bank act as a Mudarib and shares 50% of the gross income whereas the customer acts as a Rab ul Maal and also shares 50% of the gross income. The amount deposited by the customer is pooled in a Shariah compliant investment. The bank gives profit to the customer on the deposited amount. Simultaneously, Meezan bank also acts as a Wakeel (agent) of the customer and charges 5% Wakalah fees. The bank collects the actual cost of Takaful cover contribution from the customer for the Takaful partner. The bank only acts as a facilitator between customer and Takaful provider. The claim acceptance, processing and payment are the sole responsibility of the Takaful provider.

Dubai Islamic bank offers personal finance facility based on the concept of “Musawamah” for education, marriage, medical expense, credit card loan settlements or meeting any other emergency needs. Musawamah describes a transaction where the price of the goods or services is not disclosed to the buyer. In this process, the customer approaches to the bank with an application for the personal finance. After the approval from the credit department and Shariah committee, Dubai Islamic bank purchases the required commodity from the supplier on spot payment basis. The broker classifies and releases the goods to the bank. The bank, after realization of the title and the possession of the goods, sells these goods to the customer on a deferred payment basis. The customer gets an absolute right to use the goods through a documentary credit (DC) in the favor of the customer from the bank. Hence, strict Shariah checks are instigated in order to make the whole transaction Shariah compliant. Musawamah financing is available for salaried persons only and customer has to pay monthly installments with different tenure facilities.

Bank Islami offers Assan saving plan for customer’s child education and wedding and retirement. This plan is a saving and investment Takaful plan. Bank Islami offers two different strategies for this plan. The first strategy is a conservative strategy and called cash strategy in which Shariah compliant investments options are available in Sukuk, Income funds and Islamic deposits. The second strategy is an aggressive strategy called equity strategy. This strategy is based on investments in Shariah compliant stocks and Shariah compliant mutual funds. In Asaan saving

plan, Bank Islami act as a distribution agent of Pak Qatar Takaful Company. The Takaful Company is responsible for the claims settlements as well as professional management of the Participant's investment account and the Waqf fund.

AlBaraka Islamic bank in Pakistan offers only travel services in the name of personal banking. This service offers travel solution for each step like VISA processing, hotel lodging, etc. This travel service includes complete package of Hajj and Umrah too. However, the bank services are limited to sales and fund collection for travel agents. Travel arrangements and delivery of the packages is the sole responsibility of the selected Travel Agent. The fifth full-fledge Islamic bank is MCB Islamic bank. Unfortunately, MCB Islamic bank does not offer a single product related to Personal banking.

Most of the Islamic banks in Pakistan offer personal finance based on saving and investment plans like Meezan bank's Kafalah finance, Dubai Islamic bank's Musawamah finance and Bank Islami's Asaan saving plan. Al Baraka Bank offers personal finance only for travel whereas, MCB Islamic bank does not offer a single product for financing travel, education, medical or even pension benefits. In these saving and investment plans, consumer has to save an amount periodically and then invest it in Shariah compliant investment pool through bank and also take Takaful cover. The main disparage on such plans is that customer will have to save first and then invest it and then after the maturity of the plan the customer gets finance for his/her personal uses, except in case of death or disability of the customer. The education and wedding plans are generally for their children, and the medical, travel and retirement plans are for themselves. If a customer wants to start higher education and needs to finance his/her education, or wants to get other service immediately, then service Ijarah is the most suitable plan to finance the service instantly. Because service Ijarah is a deferred payment mode of finance that is customer gets service first and payment of this service starts subsequently.

### **Conclusion and Recommendations:**

Service Ijarah financing is a Shariah compliant, Ijarah al Ashkhaas based mode of financing which is in practice since the origin of Islam. Most Islamic banks

around the world are offering various types of personal banking products through service Ijarah financing. These products include financing for education, medical, travel, Hajj and Ummrah and retirement benefits. Regrettably, Islamic banks in Pakistan do not offer a single product based on service Ijarah financing. Instead, they offer personal finance based on savings and investment Takaful plans. The weakness of these saving and investment plans is that the customer has to save and invest first from his/her income for a stipulated period of time and then get the financing facility. In contrast, customer hires or purchases the service first and then pays the fees of the service in future on a deferred payment mode in case of service Ijarah financing. Just as Islamic banks are focusing on deposits from individuals, they should similarly offer personal finance products to customers at a reasonable scale or at least some part of their portfolio.

Other benefits of service Ijarah financing include a strict Shariah screening process at every stage. At the very first stage, the permissibility of the services hired is required. The service should not be haram, act of sin or disobedience and unethical and immoral. The bank cannot sale what is not in its ownership. And there is a condition for bank to get the rights of the service first before selling it to other. Therefore, Service Ijarah financing confirms strict Shariah screening. Service Ijarah is equally beneficial for Islamic banks, service providers and the consumers. Moreover, Service Ijarah as a financing mode does not affect the liquidity of the Islamic banks as they do not need to pay any cash to the customers but provide service to them against a deferred payment basis. The resultant is a fine mix of controlled activities with genuine demands and then delivery of services based on financial transaction providing a chance to part of society for fulfilling their needs in a halal way. And last but not the least, such transaction meets the criteria of satisfying public interest (Maslahah) and produces honest financial activity between different stakeholders. Therefore, it is recommended to adopt Service Ijarah financing facility by Islamic banks of Pakistan.



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