

## **DIFFERENCES BETWEEN ISLAMIC AND CONVENTIONAL FINANCIAL PLANNING**

This article is the last of the series to introduce the subject of Islamic financial planning. In the previous articles, we have discussed the Islamic worldviews of financial planning, and the 4 major components of Islamic financial planning, namely, Risk management and Takaful, Islamic investment, Zakat and tax, and Islamic estate and Waqf.

In this article we shall look at the differences between Islamic and conventional financial planning and conclude the series. But, before we go into the differences, it would be best if we revisit what financial planning is all about.

While everybody has an opinion on how to plan his financials, technically, financial planning is – as understood by the financial planning professionals – the process of creating strategies in managing financial affairs to meet life goals; and the role of the professional financial planner is to analyse the financial circumstances of the client and to provide a plan to meet the client's financial needs and goals.

In carrying out his mission, the financial planner shall provide impartial assistance and act in the best interest of the client. For the Islamic financial planner, the role is the same except that when the client is a Muslim, the life goals are guided by Shariah and the methods being applied must be Shariah compliant.

With the above backdrop, we now discuss the fundamental differences.

### **Man's time horizon – The Muslim will live in the Hereafter**

Death is when the body and the soul are permanently separated. Alternatively, death can be viewed as the end of time for a person. However, a Muslim's time horizon does not end upon death. The Muslim believes that he will be resurrected one day and be judged by his Creator and will continue to live in the Hereafter. This is a major tenet of the Islamic faith. In view of this, the Muslim has needs in the Hereafter and he must make sufficient preparations while living in this world.

In conventional financial planning there is nothing to consider for the Hereafter. This is not a surprise at all because the conventional man has no notion of the Hereafter. He does not believe that he will be resurrected and judged by his Creator. All his efforts are for the life in this world, and death is the end of the conventional man's time horizon.

Thus, it is utmost important to bear in mind that in Islamic financial planning, both the planner and the Muslim client have to plan for – and are truly concerned of – the goals and financial strategies for the Hereafter; unlike their conventional counterparts.

### **Shariah is the guide in creating strategies to achieve life goals**

The foundation of Islamic financial planning is the Shariah – a complete guide for Muslims to live their lives in this world and for salvation in the Hereafter. Shariah consists of commands, prohibitions, encouragements and principles that Allah has provided through the Quran and His messenger, Prophet Muhammad, peace be upon him. While the Shariah is applicable to the Muslims, it is also an address to mankind. And, for

those who have taken a study of the Shariah, it is not hard for them to realise that it is actually a mercy by the Creator for His creations.

A major activity in financial planning is wealth accumulation. It is important to understand that accumulating wealth is a process. Truly, it is quite methodological; in the sense that once a method to make money is discovered, the process can be repeated to generate more wealth.

However, in his pursuit of wealth, a Muslim must abide by Shariah. He cannot own any unlawful assets and his strategies to acquire assets must be Shariah compliant at all times. Principally, Muslims are prohibited from engaging in *Riba*, *Maisir* and *Gharar* and from doing business in activities that are against Shariah such as brewery, pork breeding, night clubs, pornography, cigarettes, etc in his endeavor for wealth.

The methods to accumulate wealth have been outlined by Shariah in the field of *al-muamalat* (commerce). In this regard, the development of the Islamic finance industry – anchored by Islamic commercial laws – has greatly assists the Muslims to participate in Shariah-compliant investments.

Achieving a certain amount of wealth at a certain age is a transitory objective that leads to other objectives that are more important. A Muslim is more concerned with how his wealth is being utilised. In this regards, a major activity that is obligatory upon the Muslims is the payment of *Zakat*. This wealth purification method is a distinct feature of Islamic financial planning. In conventional financial planning, there is no such concept or requirements to purify wealth.

Risk management is highly encouraged in Islam. In protecting the family from loss of income by the breadwinner, the Shariah urges the Muslims to cooperate to share the risk via the *takaful* contract. In conventional financial planning, life insurance policies are used as solutions. But this is not acceptable by Shariah, primarily due to the investments by insurance companies are not free from *riba*, gambling and other *Haram* activities, and also because the insurance practices contain elements of gambling and *gharar* (deception, contractual uncertainties, unfairness to the uninformed).

The Muslim is also concerned with wealth distribution, because it has bearings on his well-being in the Hereafter. Conventionally, a person can dictate anything of his wealth upon death, and this comes from the ideas that man is the absolute owner of the wealth that he had amassed. However, because the Muslim is only a trustee in the eyes of Allah, he must follow Shariah and be guided by Shariah in the matters of wealth distribution. The understanding of *Faraid*, *Wasiyah*, *Hibah* and *Waqf* are key areas for the Muslims. There are similar methods in conventional practices for estate planning but the objectives of these secular laws are not aligned to the *maqasid* (objectives) of Shariah. The conventional objectives basically have no consideration for socio-economic justice at all.

### **Achieving al-Falah is the objective**

To achieve *al-Falah* i.e. to be successful in this world and in the Hereafter, the Muslim must strive in Allah's cause with his wealth and his self (Quran 61:11). He needs to

spend the wealth beyond the rate prescribed for Zakat, and this is why wealth accumulation is a major concern from the Shariah perspectives.

What is being advocated is for Muslims to achieve al-Falah through sound financial planning. By going through a financial planning process guided by Shariah – and having a Shariah compliant plan at the end – a Muslim client can achieve al-Falah.

Diligently drawing and executing a Shariah compliant financial plan is striving in Allah's cause with the wealth and the rewards being due from Him. In conventional financial planning, there is neither Allah nor al-Falah to consider.

Thus, in conclusion, Islamic financial planning is different and more comprehensive than the conventional in that: (1) the time horizon covers life in the Hereafter, (2) it is guided by Shariah in the creation, accumulation, purification, protection and distribution of wealth and (3) it pursued for the sake of Allah to achieve al-Falah.

Knowledge of Islamic financial planning is crucial for Muslims to master in his capacity as *khalifatullah* (God's deputy). It can be deemed as obligatory on the self (*Fardu ain*) because it will lead to al-Falah.

### **Islamic financial planning is for Malaysia**

Proper training is the only way to become proficient in any process. Professionals are those who have not only met the minimum competency level in managing the process but are the experts in their respective fields. For Islamic financial planning, the Islamic Financial Planner (IFP) training program has been developed to produce the professionals. Being funded by the Capital Market Development Fund for its development cost and now recognized by the Securities Commission for financial planning license, the IFP is indeed for Malaysia.

By being trained through the IFP program, Muslims and those who are God-conscience can learn for themselves and can help others achieve success. Being an Islamic financial planner is a great way to earn a living and contribute to society. After all, we Malaysians did pledge to concentrate the whole of our energy and efforts to make Malaysia as the ideal country on five principles and believing in God is the first, factually.