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Assets Distribution Potential with Islamic Financial Planning Method

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Abstract

The purpose of this paper is to see the potential of Islamic Financial Planning to break out from budget deficit which is caused by the unhealthy pattern the Islamic shari'ah as a guideline in their economic activities and goal of the Islamic financial planning is to make a balance in the economics all of us. This paper begins with a general Islamic view towards wealth and the ways to manage it and combine with the financial planning conventional. The study cases that are frequent these days are the occurrence of many individuals who have high incomes but still fail to enjoy the fruit of their efforts gracefully. Hence, in this research the author tries to provide a healthy solution in financial planning which is in accordance with Islamic teachings. Finding that authors get with this method is that the solutions to personal finance has been a common problem, especially for those middle and upper economic groups. The application of Islamic financial planning model, will give a pretty good effect for the life of this world and the hereafter. because with this method, there will be a balance between the needs of the world and the hereafter. The originality of this paper is purely the author's, which is also supported by field research and scholarly process of available literatures so as to fit with Islamic values and to provide answers to the need of financial planning for a muslim individual.

Keywords :

Islamic finance, financial planning.

Introduction

Islam is a comprehensive, integrative and holistic religion that governs all aspects of life, major and minor, personal and social, spiritual and materialistic and relates this worldly life to the Hereafter. This means that we need to practice Islam while we perform our business and economic activities. Muslims are encourage planning for their life and put efforts to achieve the goal setting then ask help from Allah. The final stage is tawakal for what the result and takes it as the destiny bestows by Allah.

Islamic Financial Planning is a new concept being developed nowadays and it has a relationship with the definition of Islamic Financial Marketing which defined by Ibnu Abu Yusuf & Ibnu Taimiyyah and Ibnu Khaldun. They defined it as the creation, developing and delivery of unique customer satisfying competitive products and services at a profit to organization and customer in the lights of Islamic values and principles. In contrast, conventionally it is defined as the process whereby an individual's personal and financial goals are achieved through the development and implementation of a comprehensive financial plan.

In Islam, financial planning is not just merely a process of acquisition and accumulating wealth but it has a broad definition which relates to the concept of vicegerent (*khalifa*). The duty of man as God's khalifah is to make use of all the blessings of God on earth to his own benefit. For this, man is given freedom, that is, freedom of choice and action (also within limits). It is because of man's special faculties and his freedom that he becomes the best of God's creatures.

Financial Planning is basically a discipline of wealth management that applies to the unique needs and concerns of respective individual. As a Muslim even though a person does not possesses any

form of wealth, he still has to commit with financial planning process because either he would leave debt or children to the trusted one.

Problem Identification.

How to maximize financial potential by using economic Islamic system? .

Research Objectives

The purpose of this discussion is to answer the problems of the financial arrangements based Islamic economics glasses.

Assets

Associated with wealth in Islam, then we can see the terminology which has close links with wealth. The terminology in Arabic is Al-Faqr (poverty), Al-Maal (wealth), Al-Kasab (income) and Ar-Riziq (sustenance). Moreover, if we examine further, there is correlation between treasure with wealth. The correlation is that treasure becomes the cause or means of someone's wealth.

Wealth accumulation pillar of wealth management seeks to achieve reasonable capital growth with the primary objective of preserving accumulated wealth. This is the area that balances the risk of losing capital and the risk of losing purchasing power at the same time. Wealth accumulation involves asset allocation strategies, investment policy statement drafting, financial freedom planning and children's tertiary education planning.

In Islamic financial planning, an individual must understand the discipline of how to protect, to accumulate, to preserve and to distribute the wealth according to the Islamic Syariah. These are the components of financial planning that need to be address in achieving financial goal.

Financial Planning

Financial management is defined as the process that starts from making plan, executing with discipline and evaluation or revision if necessary Senduk (2001). There are two important posts in the financial management that is income post and expenditure post. Wibawa in Nancy (2009), defines financial planning as a way of preparing the balance of revenue on the one hand with expenditure at the other hand in the form of consumption, savings and investment.

Financial management is starting from financial planning, implementation to evaluation. Indriani et al (2009) defines financial planning as a strategy that if implemented could help achieve financial goals in the future. Financial goals in addition to increasing the wealth also keeping your financial life not in chaotic condition due to the unwanted things such as death, accident, falling value of assets such as shares, property etc. Meanwhile, according to Dorimulu, (2003) (in Nancy, 2009), financial Planning is a process to reach the purpose of life that is prosperous future and happy through financial structuring.

Malinda (2007) (in Nancy, 2009) specifically states that early steps in financial planning are (1) to learn personal financial situation by looking at revenues and expenditures, (2) identify investments instruments that will be selected as saving, mutual funds, insurance, stocks, property, (3) determine the purpose (goal) what each person wants, (4) recognize the investment pattern will be entered.

According to Safir (2000), there are six steps you should be done related with the budget planning process. First, determine the goals and objectives of the family's financial future. Second, record all financial information Third, to create and develop a budget plan. Making a budget plan is a collection of all the expected income every month for one next year and expectations of all expenditures (whether they are permanent or not permanent) in tabular form.

Fourth, planning analysis has been made. Consideration of the cash flow that occurs, whether surplus or deficit must be considered. First budget planning that made might become the subject of changing. Fifth, the implementation of budgeting planning that suitable with the result of the analysis. In this step, the implementation of the budget planning is the process of the operation of the budget.

Syari'ah Financial Planning Pillars

Financial Planning in Islam stands on two pillars:

1. Businesses that halal

It is described by Allah in Epistle Al-Mu'minun verse 51 which means:

"O messengers, eat from that well, and do righteous deeds. Behold, I am acquainted with what you do."

2. Expenditure management is good or proper financial planning.

Related to financial planning, a scholar named Hasan al-Bashry says that Allah will love those who are looking for a good and lawful prosperity, and spend economically and storing the excess while there is difficulty and when it is needed. So, from this explanation, we can pull the red thread, that the Islamic financial planning should pay attention on three important aspects. These three aspects are, first: aqidah foundation. When discussing this aspect, the relation is the sustenance that we get to be a good and lawful manner. The second aspect is the treasure should be spent properly, and the third aspect is how we invest or save for the future.

Islamic Financial Planning

Financial Planning Foundation is AQIDAH FOUNDATION which include, the first is Human Identity that is Caliph ; manage or maintain it for the welfare of worship; Ruh Moslem (desire choosing Paganism). Second, sustenance in the form of Treasury / Finance; Every creature was created with sustenance. Sustenance is anything that can be taken its advantage not to cause the arrival of sustenance. Third, Ahsanu Amala; there is goodness to the fortune that has been given to them. Fourth is not necessarily a provision treasure; this is because threasure will be trial or test or slander, so it is necessary to optimize the potential of the property

Islamic financial planning is the development of understanding of the teachings brought by Islam, ie the Qur'an and Sunnah. Since Al-Qur'an and Sunnah have provided a comprehensive overview on what should be done by humans when in this world. So the duty of man is to dig in order to understand the meaning of your life is in it. For a Moslem to follow the instructions of Allah and Rasul is not only a guide of life, but believe it will be worth the reward. Hence, on the terms of Islamic economics, Islamic financial planning not only to overcome the financial problems (treasure), but also as worship of muamalah in order to get the benefit that manage as much.

Financial Planning Process

Financial Planning is a scientific methodology to manage wealth with a holistic viewpoint. It involves developing coordinating and implementing a comprehensive range of strategies to address the wealth management challenges. Financial Planning is a process that encompasses the following six steps:¹⁰⁸

1. **Establish financial goal**

Goal setting is critical to create a successful wealth management plan. The whole financial planning process starts with establishing and prioritizing realistic financial goals and objectives. Appropriate time frame and risk tolerance level must be clearly spelt out as well. It is important that the goals must be quantifiable so that their attainment can be measured

2. **Gather relevant data**

After identifying your financial objectives, you need to gather as much as possible the relevant information. This information must be accurate, up-to-date and relevant to the financial objectives. The more complex your situation and the more varied the number of your goals the more challenging the information gathering risk. This step requires significant amount of time and patience.

3. **Analyze the data**

Analyzing and evaluating the data can be started when we have enough information. The objective of this step is to establish where you are now in comparison to the financial goals that were established in step one. This is the step that you determine the strengths and weaknesses of the present financial position.

¹⁰⁸Yap Ming Hui, *Ensuring Fitness of Wealth Management, BizWeek*, 16 August 2003

4. Develop a plan for achieving goal

Normally there will more than one way for a financial objective can be achieved and multiple alternatives should be explored and considered. The plan should be specific in nature, detailing who is to do what, when and what resources. In order to increase the commitment to the plan the report describing the plan should be in writing.

5. Implement the plan

A financial plan is useful only if it is put into action. The success of a financial plan very much depends on someone's commitment to implementing the plan. For example implementation of plan is by writing or updating a will restructure current asset allocation; reduce debts and mortgages and etc.

6. Monitor the plan

The financial planning process is dynamic and requires constant monitoring and reviewing. The plan should be reviewed at least once a year or more frequently if changing circumstances warrant it. The review process should involve tracking the progress and performance of plan implementation.¹⁰⁹

Role of Financial Planning for Moslems

Financial Planning is basically a discipline of wealth management that applies to the unique needs and concerns of respective individual. As a Muslim even though a person does not possess any form of wealth, he still has to commit with financial planning process because either he would leave's debt or children to the trusted one.

In Islam, financial planning is not just merely a process of acquisition and accumulating wealth but it has a broad definition which relates to the concept of vicegerent (*khalifa*). The duty of man as God's khalifah is to make use of all the blessings of God on earth to his own benefit. For this, man is given freedom, that is, freedom of choice and action (also within limits). It is because of man's special faculties and his freedom that he becomes the best of God's creatures.

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In Epistle Al-Isra verse 26 has been confirmed, "And give it to the family - a close family of their rights, the poor and people on their journey and do not squander (your wealth) wastefully." And this verse is also reinforced in the Epistle of Al-Furqan verse 67 which means, "And the people - those who when spend their wealth, they are not excessive, and not miserly either, and (the shopper) is in the middle of the way."

Affirmation at above two verses tell us how we should plan money that we get. To get a more detailed picture, Prophet in the hadith narrated by Imam Moslem from Abu Abdillah bin that is Tsaubah Bujdud, said: Messenger of Allah said: " As important as dinar that given by a man is dinar that given to fight in the way of Allah, and the dinar which given to friends to fight in the way of Allah". In another hadith that stated by Imam Moslem in the book Riyadhus Sholihin, from the Abu Hurairah, the Prophet told a farmer who endowed the business and his property, and at one time men were endowed the drought, but with the power of Allah, there is water that flow well and watering gardens that he has. Seeing the incident, the best friends asked about this to the Prophet, that is the behavior or deed done by the owner of the garden? Prophet then present owner of the garden, and then later give these questions, then the man answered: "it is because that any provision which Allah bestowed upon me, therefore I give one-third of my harvest, one third then I consume with a large family , and the last third of my return to the garden, which is in the form of providing seeds to maintain this garden.

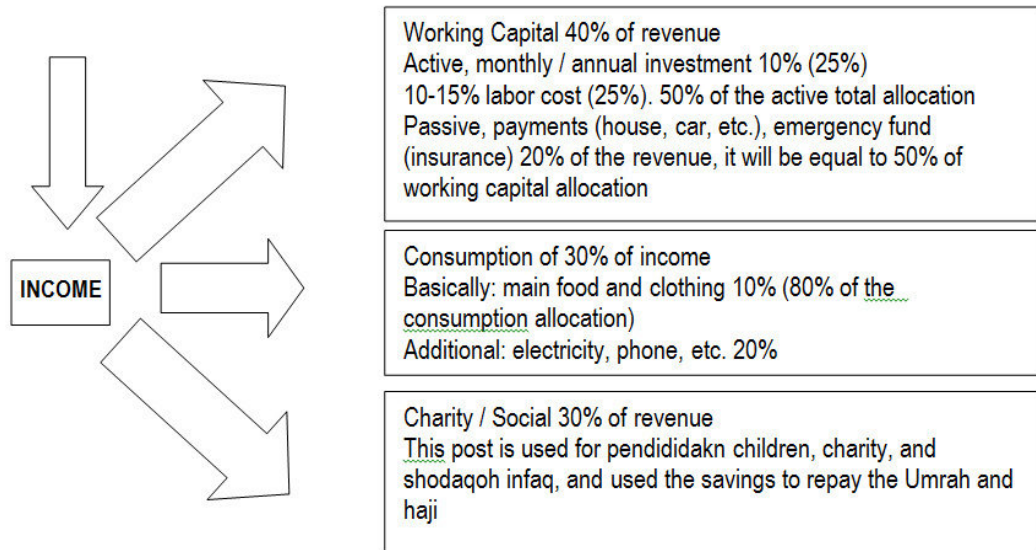
While observing above hadith explanation, we may pull the red thread relating to Islamic financial planning. The common thread is that in order to obtain the blessing of financial management

¹⁰⁹ *ibid*

and benefits and benevolent maximumly when distributed in the form of three in the third ($3 \frac{1}{3}$), $\frac{1}{3}$ for charity, $\frac{1}{3}$ for consumption (daily consumption, living), $\frac{1}{3}$ to be returned to working capital.

Based on the above presentation, the methodology to be used in the planning of Islamic finance are: $\frac{1}{3}$ for charity, $\frac{1}{3}$ for food (daily consumption, living) and las $\frac{1}{3}$ last for working capital.

The illustration can be described as follows:



Based on the illustration above, the potential of property owned by each will be distributed evenly. Because of the principle of economy, property will be useful when it can flow. But in the view of Islam, flowing treasure does not necessarily have to be interpreted with something that should provide financial effect, or something that give benefit financially for the owner or owners of capital. In terms of the financial planning Islami, something which has been unusual, it gives a very significant impact on the state of the people around us.

Conclusion

There are considerable differences between conventional financial planning with Islamic financial planning. Differences point is, in conventional financial planning, potential property owned by someone only allocated to meet the needs and wants of him. However, the Islamic financial planning, in order to get the blessings and goodness of treasure that obtained, the distribution of wealth must be distributed not only to our personal interests, but also have to pay attention to the fate of others. So when we look at another person, the owner and giver of sustenance will always add a provision that has been bestowed.

Based on the presentation result from start to finish, then we can make a conclusion, that in order to maximize the revenue we have, in order to obtain the maximum blessing and goodness, not only for us, but also for the parties who were around the kits. This is because the income / wealth that we have originated and Allah, then naturally the management should be based on the teachings of Allah.

The potential that we can achieve while maximizing revenue / asset with method $3 \frac{1}{3}$, are as follows:

1. In the $\frac{1}{3}$ post of working capital, it is used to support one's fluency in finishing activities at the next month. Thus will not bother others.
2. At $\frac{1}{3}$ post consumption (income), then there are five kindness will be obtained when maximizing this post. The five potential goodness are: sympathize / support his parents, sympathize / support a family, sympathize / feed orphans, sympathize or support poor. This is in line with Allah's word in the Epistle of Al-Bagarah verse 215, "they said about what they spend. Answer: "Whatever treasure that you give should be given to mother-father, kinsfolk, orphans, poor people and people who are on their journey." and what good things you do, verily Allah the Knowing is know."

3. In the post 1/3 charity, there are 10 potential goodness when we implement shodaqoh for ourselves and our spouses to achieve the goals of gaji and umroh, preparing for marriage funds for sons and daughters, to fulfill aqiqah, circumcision and education, as well as post of zakat, infaq, shodaqoh and endowments.

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