

# **A Study on Islamic vehicle leasing as practiced by Islamic financial institutions in Sri Lanka**

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With the increasing demands of everyday life, vehicle ownership has shifted from a mere luxury to a vital necessity. Purchasing a vehicle is often the second most expensive yet important purchase, after buying a home. While doing so, an individual has two options available: either to make a hand on hand (cash) purchase or to go for vehicle financing. However, due to the exorbitant vehicle prices and lack of the funds available, many individuals prefer the latter option and approach the various financial institutions, which provide this facility at different rates.

In Sri Lanka also leasing practices are going over 30 years. There are Islamic and conventional financial institutions practice vehicle leasing in Sri Lanka. But, the Islamic vehicle leasing has only four year experience in Sri Lanka. So, this study attempts to find the practice of Islamic vehicle leasing in Sri Lanka and the challenges in practicing operating lease. Therefore, this study examines the impact of selected challenges on practicing operating lease. A qualitative study is carried out which include personal interview, questionnaire and secondary data materials. Questionnaires are dealing with selected challenges and practicing operating lease. The population for this study considers the bankers, employees and the *Shariah* supervisory board members of all branches of ABL, Al-Safa, PLC and Al-Falah, LOLC in Eastern province. A simple random sampling technique is used to select the respondents surveyed for this study. For data analysis, descriptive statistical techniques are used. For hypothesis testing, spearman correlation and multiple linear regressions are used. Findings indicate that there is a significant positive relationship between selected challenges and the practice of operating lease from the sample point of view.

**Key words:** Ijarah, Ijarah based financing, challenges of operating ijarah