

# RISK MITIGATION

## **The Definition Of Arbun**

*What is Arbun?*

Arbun is a down payment that is made at the time of the execution of a contract. It is considered a part of the price of the asset in the contract in the event that the client makes all his payments on time. If he fails to do so, the contract stands annulled and this amount is retained by the financial institution. Whether this down payment makes up for the institution's loss completely or not, the client may not be charged an extra amount to make up for the difference.

## **The Definition Of Haamish Jiddiah**

*What is Haamish Jiddiah?*

The term Haamish refers to margin and Jiddiah refers to sincerity. Haamish Jiddiah is a security deposit taken before the execution of a contract. It is deposited by the purchaser to ensure that if he fails to keep his "promise to purchase," it compensates the financial institution for expenses incurred. Once the bank makes up for its loss, any remaining amount is returned to the client. If the financial institution experiences a loss that is greater than the amount of security deposited, the client is required to make up for the difference.

## **Shart e Jazai**

*What is the Shart e Jazai?*

The Shart e Jazai is a penalty that allows for a reduction in the price of manufactured goods if there is a delay in the delivery. Such a penalty is permitted in manufacturing contracts since the buyer requires goods at a fixed time. Without such a deterrent, a delay on the manufacturer's part could have far-reaching consequences. This is particularly the case when the buying party is not the ultimate end user and will have follow-on commitments to third parties.