

An Insight into Investment and Deposit Products Offered by Islamic Banks in Malaysia

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Abstract

The aim of this paper is to understand the practical application of investment and deposit products in comparison with the guidelines offered by the Islamic Financial Services Act (IFSA). Here, the products' features and benefits of the banks' deposit and investment products are highlighted. A performance analysis of both products is conducted among different banks in Malaysia, and their results are used to draw conclusions on the effects of IFSA on banks. The data was based on two banks in Malaysia: one was a fully-fledged Islamic bank, and the other was a subsidiary bank offering Islamic banking products. The information was obtained from the banks' websites, annual reports, and Bank Negara Malaysia's (BNM) website. The findings of the research are that the two banks analyzed all conform to the guidelines issued by IFSA. The volumes of investment products have significantly decreased after the introduction of IFSA compared to the volumes of deposit products. Bank Islam and CIMB Islamic both provide items that are suitable for use with an IFSA. Customers have a thorough understanding of the benefits of various types of deposits and investments.

Keywords: Islamic Financial Services Act, Investments, Deposits, products

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Introduction: Banks are financial institutions which play a major role in the economy. They are intermediaries between the depositors and the investors. Malaysia is one of the leading countries in terms of Islamic banking and capital market. Malaysia has come a long way since the first Islamic bank was established in the country in 1983. According to (BNM), there are 16 Islamic banks, the banks serve as custodians of all Islamic deposit and all the deposits are for safe custody only (Islamic Banking Act 1983, 1983). Existing and future Islamic financial institutions in Malaysia hold great potential for developing and expanding the country's Islamic financial sector (Khan et al., 2021).

Before IFSA, there was not any specific, end to end Shariah inclusive framework and act. Potential growths in Islamic financial services and products have compelled Central Bank of Malaysia (BNM) to come up with new regulatory framework. So BNM has come up with IFSA which has replaced the Islamic Banking Act (IBA) 1983, Takaful Act 1984, Payment System Act 2003 and Exchange Control Act 1953 (Bank Islam Malaysia Berhad, 2014). Emergence of IFSA has provided greater clarity and boosted the consumer confidence in the use of Islamic financial services and products. Classification and impairment of loans or financing is governed by the Central Bank of Malaysia (Nor et al., 2019).

Under the repealed IBA (1983), all Islamic deposits were grouped together and there was no segregation of deposit and investment products. However, IFSA came to clarify the difference between the investment and deposit products and gave guidelines on the proper way of treating the investment products. It has reclassified deposits account into deposit products and investment products and term deposit products which is known as *tawarruq* (commodity murabaha). In accordance to section 148 of IFSA, Islamic deposit means a sum of money or any precious metal or precious stone accepted, paid or delivered in compliance to Shariah principle. Islamic deposits is either classified as current or savings accounts whereby the funds can be repaid or refund in full by instalment or lump sum with or without any gains. Investment account means an account which is considered as a provision of financing for the purpose of investment in a Shariah compliant portfolio and there is no obligation on Islamic bank to repay the money in full (Ahmad et al., 2020). An investor may get either only

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profits or both profits and losses or he may get with or without any return (Islamic financial services Act, 2013).

This paper will focus on two main areas:

- The deposit and investment product of Bank Islam, a fully-fledged shariah compliant in Malaysia and CIMB Islamic Bank, a subsidiary of CIMB group.
- The qualitative analysis of the deposits in relation to the shariah contracts for the two banks.

The major interest is to analyse the volumes of the deposit and investment products and highlight the impact of IFSA on customers' preference between the products.

Literature Review

Deposits are the cheapest sources of funds for banks and therefore, all banks campaign for deposits. Nevertheless, they are still liability to the bank, and it acts as the main source of funds for bank to further offer financing product or invest in profitable investment portfolio. In conventional banking the relationship between the depositors and the bank is only debtor-creditor relationship. However, in Islamic banking the relationship depends on the contract used in the deposits product which mainly consist either *wadiah*, *qard* or *mudharabah* contract (Qaed, 2014).

Firstly, the deposit product or better known as *wadiah* in Arabic term is a major product in most of the Islamic banking sector. There are no specific verses referring to the safekeeping in Quran. However, there is a verse related to trust and the importance of safekeeping in which Muslims have been fore-warned to avoid entrusting positions of responsibility and religious and political leadership to inefficient, narrow-minded, immoral and dishonest people. As a result, doing so the whole community can become corrupt. Muslims should enjoin to entrust positions of responsibility to qualified and competent people of good moral character. Furthermore, Allah warns the believers against injustice and enjoins them always to say what is just and right and judge between the people with justice whether they be friends or foes (Surah Al-Nisaa verse 58).

According to Al-Farabi (1987), the term *wadiah* is derived from the verb *wada'a*, which carries the meaning of leave, lodge, deposit or safekeeping. However, there are some slight differences in the *wadiah*

definition among the scholars. In the view of Hanafi scholars, it's defined as an empowerment to someone for keeping the owner's property explicitly and implicitly. Whereas according to Shafi'i and Maliki scholars, *wadiah* is presentation in keeping possession of respectable private goods in specific way. Hanbali scholars includes the element of charity when they define *wadiah* as representation in keeping (other's property) and it is done (by the keeper) as charity (Qaed, 2014).

According to majority of jurist, *wadiah* is based on three pillars which stipulate certain conditions to be complied with, in order for it to be valid. It is as follows:

1. The declaration (offer and acceptance/ *ijab* and *qabul*). All Muslim scholars unanimously agreed on this condition which is, there must be a valid offer and acceptance made between both parties.

2. The contracting parties which is the depositors and the guardian. According to Hanafi School, the attaining age of maturity is not compulsory provided consent from parents to do business is obtained. However, majority of Muslim jurist's view is that the contracting parties must be eligible to be a *wakalah* (agent), which is they must be a person of sound of mind, and have attained the age of maturity and intelligence

3. The deposits which is the asset must be valuable property in Islamic law and can be possessed physically. This is very important because some asset might be valuable to non-muslim but not to muslim, for instance wines, pork, stolen items, and forbidden things. (Muhammad, 2016)

Another contract that is also being used in the classical time for deposits product is *qard*. *Qard* is an Arabic word means "to cut", historically the lender cut off part of his or her property to give to the borrower as a loan. The word *hasan* is derived from *Ihsan* which is translated as splendid or beautiful. Thus, combining these two words together means beautiful loan. The concept of *qard al-hasan* is a contract of lending money by a lender to a borrower where the latter is bound to return an equivalent replacement amount to the lender. Basically, the loan is given for the welfare purpose and charitable causes not for the sake of commercial finance. It is to assist the poor or needy by offering a loan without any interest. While a *qard* may also be a bank deposit, which is considered as loan by a depositor and have to be return upon request (Kabir, 2009).

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On the other hand, *mudharabah* contract is being adopted in the contemporary Islamic banking deposit product nowadays. *Mudharabah* term is derived from the verse '*daraba fil ard*' which means to make a journey. It is clearly stated in Quran that traveling to earn one's living by lawful and permissible methods has been described as the seeking of Allah's bounty (Surah Al-Muzammil verse 20).

The word *daraba* mentioned in this verse indicates travelling to various part of the world, from place to place for a trading purpose in seeking Allah's bounty.

Other Arabic words which have been used interchangeably in *mudharabah* are *Al-Qirad* or *muqaradah* which means to cut off. It means the capital provider cuts off some of his money to be utilized by the manager (*mudarib*) in certain business activities to generate some profit that will be distributed between them. The differences between the terminologies used was based on the geographical factor, as *mudharabah* been used by the Iraqis while *qirad* had been used by the Hijazis. (Lahsasna, 2013).

The Malikis look at *mudharabah* contract from the legal perspective, it is defined as an agency for trading. However, the Shafi'i and Hanbali describe it as an agreement where the capital is provided by the *rab al-mal* and traded by the workers then the profit is shared among them. The most comprehensive definition of *mudharabah* was by the Hanafi School of law. It defines *mudharabah* as a partnership for participation in profit which the capital is provided by one sided and the labour skill is from the other side.

The Hanafi's record only forms (offer and acceptance) as the element of *mudharabah*. In this sense, the Majalla stipulates (art. 1405) "The basis of a *mudharabah* is offer and acceptance". While the majority of jurists' list three elements for the contract of *mudharabah*: Parties to the contract (*rab al-mal* and *mudarib*), subject matter (capital, work and profit) and form (offer and acceptance) (Lahsasna, 2013).

Deposit and Investment Products in Islamic Banks

Islamic Banks like conventional banks have current accounts, savings accounts (CASA) and term deposit accounts. Banks have different names for the deposit products but in essence they all fall under

3 categories which are; current accounts, savings accounts, term deposit accounts. Before IFSA, the shariah contracts used are *wadiah yad dhamanah*, *qard* and *mudharabah*. All the deposits were protected by Perbadanan Insurans Deposit Malaysia (PIDM). (Amin H. , 2013).

One salient feature of IFSA is the defining of the bank's funding into deposit funds and investment funds. Prior to this new law, exposures funded by deposit funds had to be protected even when such deposits were based on *mudharabah*. As equity funds, investment accounts (IA) are expected to stimulate profit-loss sharing financing and enhance entrepreneurship in the real sector (Rosly, 2016).

The transition exercise of segregating deposit products with investment accounts in Islamic banks took two years transition period. The parties affected by the transition are depositors and investors who hold *mudharabah*, and *wakalah* based current and saving deposit and investment products (Bank Islam Malaysia Berhad, 2014).

The customers with *mudharabah* or *wakalah* accounts were given the option to retain as investment products where the features of investment accounts will prevail or convert them to deposit or term deposit-i accounts under *wadiah* or *tawarruq* products (Bank Islam Malaysia Berhad, 2014).

The distinctive features of investment and deposit products according to IFSA

- The shariah contracts differ in Islamic deposits compared to Investment products. The Islamic deposits are governed by *wadiah*, *qard*, *murabahah* and *tawarruq*. Whilst the investment products are governed by *mudharabah*, *musharakah* and *wakalah*.
- Islamic deposits are principal guaranteed Shariah contracts such as *qard*, *wadiah*, *murabahah* and *tawarruq*; and principal non-guaranteed Shariah contracts such as *mudharabah* and *wakalah* (Abdul Ghafar Ismail, 2016)
- The forms of return in Islamic deposits are in form of *hibah* for the CASA while for term deposits are in form of mark-up (i.e. principal and profit). As for the investment accounts, the returns are in form of pre-agreed profit-sharing ratios for *mudharabah* and *musharakah* accounts. In *mudharabah*, the *rab al-mal*, in this case the investing customers are the loss bearers (Amin, 2016). While *musharakah*, the loss is born by both parties in proportion to their

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capital (Usmani). A brief explanation of each type of accounts is given below.

Deposit Products

a) Current accounts

For Islamic banks, it is termed as *Current accounts-i* to signify that it follows the shariah principles. According to (Amin H. , 2013) current accounts are called check accounts in US because customers use cheques to make payment. This means that customers are eligible to receive cheque books when opening current accounts. The purpose of the current accounts is to facilitate customers be it businesses or individuals to transact and not for investment purposes. For this reason, the applicable contract is *wadiah yad dhamanah* which the funds are placed with the bank for safe keeping purposes. This contributes to the fact that; the principal is guaranteed. However, the bank uses the customers' deposits in short term financing with other banks to assist in liquidity of the banks. Out of the bank's appreciation to the customers and also because of competition by the conventional counterparties, Islamic banks may give *hibah* to the customers. However, it is at the bank's discretion. The determination of *hibah* rate is based on the performance of the bank, size of the deposit, period of the saving and the policy of the bank, which may differ from one bank to another (Amin H. , 2013).

b) Savings Accounts

Savings account-i product offered through the shariah principles of *wadiah* or *qard*. It encourages customers to retain their money and use it when needed. The customers with savings account have no intentions of investment and therefore do not expect any returns. However, since the bank uses the funds and invest them in short term projects at their own risk, they give the customers *hibah* depending on the bank's policy (Amin H. , 2013).

c) Term Deposit Accounts

As the name suggests, it is money placed with the bank for a certain period of time and it's for investment purposes. The customer is restricted from withdrawal until the term matures. With the IFSA,

the term deposits cannot be structured under *mudharabah* and guarantee the principal. For the customers who are not willing to accept risk of losing the principal in case of loss, *tawarruq (commodity murabaha)* contract was proposed for this deposit.

d) Investment Account

IFSA distinguishes investment account from Islamic deposit, where investment account is defined by the application of Shariah contracts with non-principal guarantee feature for the purpose of investment. (Bank Negara Malaysia, 2014). The Investment Account holders (IAH) have other rights compared to the deposit holders; for instance, IAH is given more priority to deposit holders at liquidation. The shariah contracts used in investment accounts are *mudharabah*, *musharakah* and *wakalah*. There are two types of investment accounts; Restricted investment account (RIA) and Unrestricted Investment account (URIA) according to IFSA. RIA refers to a type of investment account where the IAH provides a specific investment mandate to the IFI such as purpose, asset class, economic sector and period for investment. While the URIA refers to a type of investment account where the IAH provides the IFI with the mandate to make the ultimate investment decision without specifying any particular restrictions or conditions (Bank Negara Malaysia, 2014).

CIMB Bank

An analysis of the deposit structure of two banks i.e. CIMB Islamic and Bank Islam was done. The analysis comprises of the products features and benefits in relation to IFSA. It also compares the deposit and investment volumes of two consecutive financial years; 2014 and 2015. CIMB Islamic is a subsidiary of CIMB group. CIMB group has both conventional and Islamic banks. CIMB Islamic started functioning since 2008 and it serves 13 million customers with ASEAN's largest retail network of over 800 branches (CIMB Islamic Bank Berhad, 2017)

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Features and Benefits of Deposit Products

a) Current Accounts

CIMB Islamic bank has four different types of current accounts tabulated below. The shariah contract, the features and benefits are mentioned for each account.

Table 1: Different types of current accounts, CIMB Islamic Bank Website

| Type of Account | Shariah Contract | Minimum Deposit | Benefits | Features |
|------------------------------------|-------------------------|--------------------------------------|---------------------------------------|--|
| Basic Current Account-i | Wadiah Yad Dha-manah | Minimum initial deposit is required. | Hibah given at the bank's discretion. | <ul style="list-style-type: none"> • For Individual Malaysia Citizen and permanent resident of 18 years and above. • Cheque book given • ATM for individuals only • Free Monthly statement of account • Internet Banking Facilities • Eligible for PIDM protection • Applicable to Small and Medium Enterprises. • Joint Account is allowed. |
| Pre-ferred Current Account-i | Wadiah Yad Dha-manah | RM 1,000. | Hibah given at the bank's discretion. | <ul style="list-style-type: none"> • For member of CIMB Preferred. • Daily ATM Withdrawal up to RM10,000 • Unlimited Cash Withdrawal • SMS Alerts on account status. • Online Banking via CIMB Clicks. • Member for PIDM protection. • Cheque book issued |
| Foreign Currency Current account-i | Qard | | | <ul style="list-style-type: none"> • Available in US (USD), Sterling Pound (GBP), Japanese Yen (JPY), Australian Dollar (AUD), New Zealand Dollar (NZD), Singapore Dollar (SGD), Swiss Franc (CHF), EURO (EUR), Canadian \$ (CAD), Hong Kong Dollar (HKD), Chinese Yuan (CNH) And Thai Baht (THB). |

| | | | | |
|--------------------------|----------------------|--|--|---|
| | | | | <ul style="list-style-type: none"> • Eligible for individuals aged above 18 years, residents or non-residents. • Business operating in Malaysia. |
| Wadiah Current account-i | Wadiah Yad dha-manah | RM 500 for individuals and RM 1,000 for companies, firms and associations. | | <ul style="list-style-type: none"> • Cheque book given • Free Monthly statements • ATM withdrawal up to RM 5,000 • Internet Banking Facility • Eligible for PIDM protection • Individuals aged 18 years and above for personal and joint account. • Eligible for firms, associations, companies, societies or clubs. |

b) Savings Account

The Bank has eight different types of savings accounts tabled below. The product features and benefits are highlighted below.

Table 2: Different types of savings accounts, CIMB Islamic Bank Website

| Types of account | Shariah contract | Minimum deposit | Benefits | Features |
|------------------------|--------------------------------|-----------------|-----------------------|---|
| Saving Account-i plus | Tawarruq, (Commodity Murabaha) | | Profit given by bank. | <ul style="list-style-type: none"> • Statements-based saving account with debit card • ATM withdrawal limit up to 10,000 • Internet banking, • Min. Balance or RM 20 at all times, • Principal protected by PIDM |
| Basic Saving Account-i | Qard | | Bank give hibah | <ul style="list-style-type: none"> • Pass book, • Has ATM card, • guaranteed principal deposit, • Internet banking, |

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| | | | | |
|----------------------------------|---------------------|--------|-----------------|---|
| Wadiah saving account | Wadiah Yad Dhamanah | | Bank give hibah | <ul style="list-style-type: none"> • Pass book with Debit card • ATM withdrawal limit up to RM 5,000 • Principal deposit guaranteed • Internet banking • 20RM at all times |
| Wadiah Children Saving Account-i | Wadiah Yad Dhamanah | RM 500 | Bank give hibah | <ul style="list-style-type: none"> • Guaranteed deposit principal • Once a month unlimited withdrawal |
| Wadiah teenage saving account-i | Wadiah Yad Dhamanah | | Bank give hibah | <ul style="list-style-type: none"> • Pass book with debit card • guaranteed deposits principle • ATM withdrawal up to RM 500 per day |
| Eco Saving Account-i | Wadiah Yad Dhamanah | | Bank give hibah | <ul style="list-style-type: none"> • Internet banking platform • Debit Card • Environmentally friendly • Eligible for PIDM protection |
| YOUTH Savers Accounts-i | Wadiah Yad Dhamanah | | Bank give hibah | <ul style="list-style-type: none"> • Online banking • Debit Master Card-i • Eligible for PIDM protection |
| Junior Savers Account-i | Wadiah Yad Dhamanah | | Bank give hibah | <ul style="list-style-type: none"> • Saving passbook, • Only OTC withdrawal allowed • Eligible for PIDM protection |

c) Term Deposit Account

There are four different types of term deposit accounts. The contract mainly used is tawarruq (commodity murabaha) and the

minimum deposit is RM 10,000. The features and benefits are highlighted below.

Table 3: Different types of term deposit accounts, CIMB Islamic Bank Website

| Types of account | Shariah contract | Minimum deposit | Benefits | Features |
|--|--|-----------------|---|---|
| Fixed return income Account-i(FRIA-i) | Tawarruq (commodity murabaha) | RM 10,000 | Determined Fixed and profit upfront | <ul style="list-style-type: none"> • Maturity period 1,2 and 3 month • Partial withdrawal unavailable • Premature upliftment. • Eligible for PIDM • Tenor of deposit 1 to 60 month |
| Fixed Return Income Account-i(FRIA-i)- Monthly Returns | Tawarruq, Commodity Murabaha | RM 10,000 | Profit is determined and upfront | <ul style="list-style-type: none"> • Partial withdrawal with great profit rate 3.9%p.a. for 6 month, 4.1%p.a. for 12 months, • Min. Withdrawal Rm1,000, • Eligible for PIDM protection |
| Fixed Return Income Account-i – Maturity Returns | Tawarruq and Murabaha vis-vis commodity Murabaha | RM 10,000 | Fixed upfront and predetermined profit. | <ul style="list-style-type: none"> • Minimum Withdrawal 1,000 • Tenor between 1- 60 month • Eligible for PIDM protection |

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| | | | | |
|--|------------------------------|--|--------------------|--|
| Foreign Currency Fixed Return Income Account-i | Tawarruq, Commodity Murabaha | | Higher profit rate | <ul style="list-style-type: none"> • US Dollar, Australia Dollar & Euro will be available currency, • Deposits and withdrawals, • Eligible for PIDM protection. |
|--|------------------------------|--|--------------------|--|

e) Investment Accounts

The Bank has three types of investment accounts for different category of customers. Some of the investment accounts are linked to financing like the Special Mudharabah investment account-i. The account is linked to flexi-home financing facility. More details on the accounts is given below.

Table 4: Different types of Investment accounts, CIMB Islamic Bank website

| Types of account | Shariah contract | Minimum Initial Investment | Benefits | Features |
|--|----------------------------------|----------------------------|---|---|
| Special Mudharabah Investment Account-I (SMIA) | Unrestricted Investment account. | RM 50.00 | <ul style="list-style-type: none"> • Profit sharing ratio is (5:95) where 5% is customer's share and the 95% is bank's share. • Profit is distributed on monthly basis. • Profit is subject to the asset where the funds are invested. | <ul style="list-style-type: none"> • Enjoy monthly returns while get savings on the flexi-home financing. • No specific tenure for investment. • Individual (Malaysian Citizens and Foreigners) & Business Entities. • It's only applicable to customers with Flexi Home Financing-i and Flexi Business Premises Financing-i where they will earn |

| | | | | |
|--|--|-------|--|---|
| | | | | <p>returns against their savings and will also reduce the finance charges.</p> <ul style="list-style-type: none"> • Not eligible for Perbadanan Insurans Deposit Malaysia (PIDM) protection. |
| In-vestSmart-i | Both using the investment and Islamic unit trusts. | | <ul style="list-style-type: none"> • Profit may go as high as 48.85% • Combines the security of investment account and the power of unit trust to boost your overall investment potential returns. | <ul style="list-style-type: none"> • Flexible investment tenure • The ratio is the investment is 60:40 where 60% of investment is in selected Islamic unit trusts and the 40% is in investment account. • Eligible for 18 years old & above • Eligible for Malaysian or Permanent Resident or non-Permanent Resident (with work permit) |
| Max InvestSave Profit Sharing Specific Account-i | Restricted Mudharabah account | RM 50 | <ul style="list-style-type: none"> • Profit sharing of 95:5 where 95% is the customer and 5% is the bank. • Enjoy highest return achieved when held until maturity | <ul style="list-style-type: none"> • Withdraw any amount, any time at the prevailing market price. • Redeem in part or in full (minimum 0.01 units) • Investment tenors are 15, 20, 25 or 30 years. • Principle is eligible for PIDM protection |

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| | | | | |
|--|--|--|--|--|
| | | | | <p>and the amount is dependent on PIDM from time to time.</p> <ul style="list-style-type: none"> • Performance depends on CIMB ever-green index |
|--|--|--|--|--|

From the information above, CIMB Islamic have so many products under the current, savings and term deposit accounts to cater for different type of customer. The differentiating factors in the products are the features which are made very flexible for the customers. For instance, the current and savings accounts require low minimum deposit to attract as much deposits as possible while the term deposit accounts require minimum deposit of RM 10,000. The term deposit accounts target customers with so much liquidity and wish to invest and earn returns on their investment. The underlying contract is *tawarruq*, whereby the principal is guaranteed.

The shariah contracts used by CIMB Islamic are *wadiah yad dhamanah*, *qard* and *tawarruq* for the deposit products. One common feature in all the deposit products is the PIDM protection which guarantees the principal, while the investment accounts are not principally guaranteed. Each account has its own benefits, for the investment products, the main benefit is the profit earned which is shared between the customer and the bank, the current and savings products are not entitled to receive any profits unless the bank wishes to provide *hibah* to its customers. However, they have other benefits like internet banking, entitled to get cheque book etcetera depending on the product.

After seeing the different products offered by CIMB Islamic bank, an analysis is done on the bank's deposits in comparison to the shariah contracts used to evaluate the contract mostly used by the bank.

The extract below from the annual report of CIMB Islamic Bank shows the bank's deposits in accordance with the shariah contracts used.

Table 5: Note 19 of the Financial Statements for the year 2015, CIMB Islamic bank annual report 2015.

19 Deposits from customers

(i) By type of deposits

(i) By type of deposits

| | The Group and the Bank | |
|--|--|--|
| | 31 December 2015 RM'000 | 31 December 2014 RM'000 |
| a) Savings deposit | 2,584,159 | 2,202,778 |
| Wadiah | 2,584,159 | 2,202,778 |
| b) Demand deposit | 9,352,520 | 7,901,001 |
| Wadiah | 8,965,736 | 7,101,583 |
| Qard | 386,784 | 61,320 |
| Mudharabah | - | 738,098 |
| c) Term deposit | 32,296,512 | 31,205,378 |
| Commodity Murabahah | 31,296,088 | 21,420,321 |
| Islamic negotiable instruments | 742,792 | 2,563,732 |
| Mudharabah | 344,450 | 389,915 |
| Hybrid (Bai Bithamin Ajil (BBA) and Bai al-Dayn) | 398,342 | 2,173,817 |
| Short term money market deposit - i | - | 5,093,512 |
| Wakalah | - | 5,093,512 |
| General investment account | 77,997 | 1,336,037 |
| Mudharabah | 77,997 | 1,336,037 |
| Specific investment account | 169,209 | 174,606 |
| Mudharabah | 169,209 | 174,606 |
| Other term deposit | 10,426 | 617,170 |
| Wakalah | - | 608,700 |
| Wadiah | 10,426 | 8,470 |
| d) Others | 14,689 | 18,887 |
| Qard | 14,689 | 18,887 |
| | 44,247,880 | 41,328,044 |

The extract below shows the investment funds from the customers in form of restricted or unrestricted investment accounts.

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Table 6: Note 20 of the Financial Statements for the year 2015, CIMB Islamic bank annual report 2015.

CIMB Islamic Bank Berhad

(Incorporated in Malaysia)

**Notes to the Financial Statements
for the financial year ended 31 December 2015 (Continued)**

20 Placements from investment accounts

| | The Group and the Bank | |
|-----------------------------------|-------------------------------|-------------------------------|
| | 31 December 2015 RM'000 | 31 December 2014 RM'000 |
| -Restricted investment accounts | 2,900,982 | - |
| -Unrestricted investment accounts | 232,716 | - |
| | <u>3,133,698</u> | <u>-</u> |

The two figures 1 and 2 are pie charts below demonstrate the share of the deposit and investment funds according to the shariah contracts used by the CIMB Islamic Bank in the year 2015 and 2014.

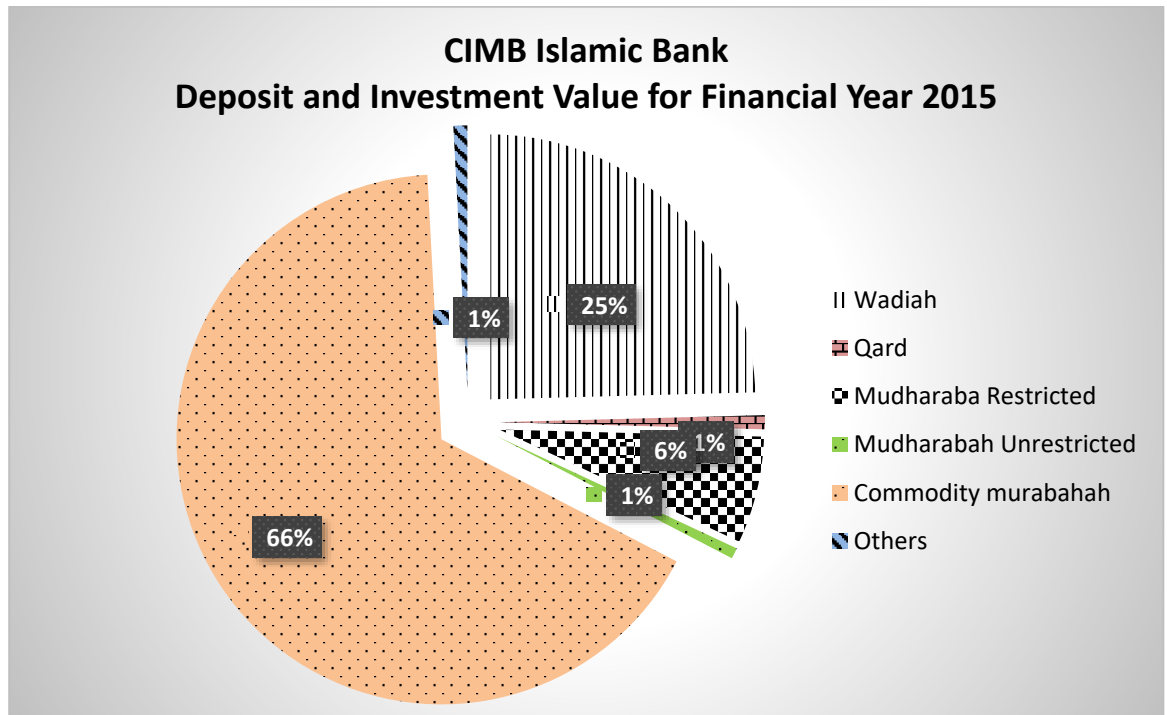


Figure 1: Authors presentation: Pie Chart demonstrating different contracts applied in deposit and investment products, CIMB Islamic Bank, 2015

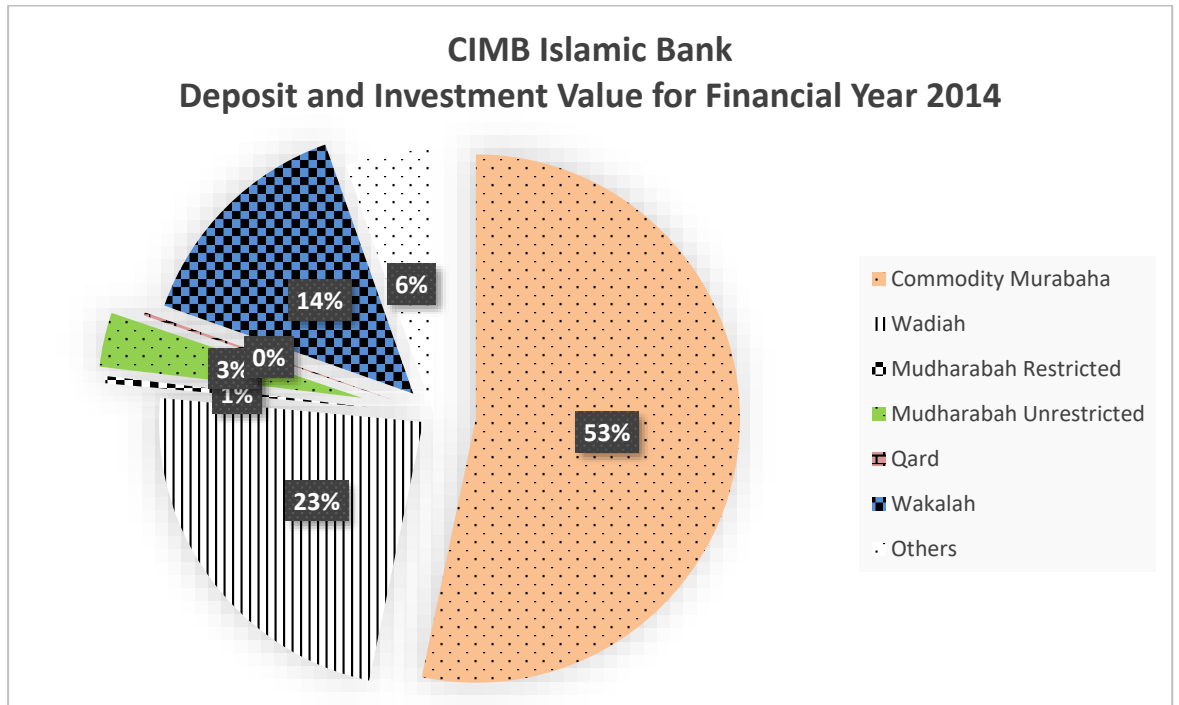


Figure 2: Authors presentation: Pie Chart demonstrating different contracts applied in deposit and investment products, CIMB Islamic Bank, 2014

From the analysis above, it shows that before implementation of IFSA, the popular shariah contract used was commodity Murabaha (*tawarruq*) which was around 53% in 2014. The deposits under *commodity murabaha* then increased to 66% in the year 2015, this increase is mainly attributed by the reduction of the deposits under *wakalah* contracts which was at 14% in the year 2014 and in the year 2015, it reduced to 0%.

The *mudharabah* investment accounts were introduced in the year 2015. There are two types; restricted *mudharabah* and the unrestricted *mudharabah* investments. The funds in the restricted *mudharabah* were invested in other term financing, marketable securities and other assets (CIMB Islamic Bank Berhad, 2015).

The percentage deposit value is very high compared to the investment value in both 2014 and 2015. The percentage of the deposit value is 92% and the investment value is 4% in 2015. In 2014, the percentage of the deposit value is 76% and the investment value is 24%

of the total deposits. It is evident that the deposit funds increased further in 2015 and the main shariah contract used is commodity mura-baha.

Bank Islam

The government of Malaysia has taken a proactive action by establishing Bank Islam Malaysian Berhad (BIMB) in 1 July 1983. It is the first Islamic Bank founded in Malaysia and even in ASEAN region. The main objective of setting up this important financial institution is to assist the Muslim financial needs in Malaysia. By adapting service excellence culture, Bank Islam continues to cater different needs of the customers as it strives to uphold its status to become the symbol of Islamic banking in Malaysia.

With over 70 innovative and advanced ranges of product and services, BIMB offers a comprehensive financial solution for more than 5 million of its customers. The products range from the traditional financing, savings and investment solutions exclusively for individual customers. However, this paper will highlight and elaborate on BIMB deposits and investment products which represented the liability side of the bank account.

a) Deposit Product

BIMB has five different types of deposit products where two are current accounts, two savings accounts and one term deposit account. The main shariah contract used is *Wadiah Yad Dhamanah*. The table below shows the features and benefits for each account.

Table 7: Different types of deposit products, Bank Islam Website.

| Name of product | Applicable Shariah Contract | Minimum deposit | Benefits | Features |
|--------------------------|------------------------------------|------------------------|--|---|
| Wadiah Savings Account-i | al-Wadiah (safe custody) | RM10.00 | Hibah may be given on a monthly basis based on the Bank's discretion | <ul style="list-style-type: none"> ● Free Savings Passbook ● Bankcard Facilities ● Salary Crediting & Sweeping Facility ● Standing Instruction Facility Others facilities: ● Bill payment |

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| | | | | |
|--------------------------|---------------------|---|---|--|
| | | | | <ul style="list-style-type: none"> • bankislam.biz • TAP Mobile Banking-i |
| Basic Saving Account-i | Wadiah Yad Dhamanah | RM 20.00 | Bank at its own discretion to grant Hibah | <ul style="list-style-type: none"> • ATM and over-the-counter (OTC) withdrawals • Fund transfers and bill payment facilities |
| Wadiah Current Account-i | Wadiah Yad Dhamanah | Minimum RM500.00 initial deposit for individual account and RM1,000.00 for non-individual account | Bank at its own discretion to grant Hibah Protected by Perbadanan Insurans Deposit Malaysia (PIDM) | <ul style="list-style-type: none"> • Cheque Book, ATM/Debit Card • Facilities, Salary Crediting • Sweeping Facility • Standing Instruction, Bill Payment, • Internet Banking, TAP-Mobile Banking, e-Debit, MEPS Cash, IBG, Cash line-i (Islamic Overdraft), Access to Tabung Haji |
| Basic Current Account-i | Wadiah Yad Dhamanah | RM 500.00 | Bank at its own discretion to grant Hibah | <ul style="list-style-type: none"> • Cheque and cash deposit • ATM and over-the-counter (OTC) withdrawals • Fund transfers and bill payment facilities • Issuance of cheque with NO overdraft facilities |
| Term deposit-i | Tawarruq | RM1,000 for 1 month RM500 for 2 months & above | Upon maturity (tenure up to 1 year) Half-yearly profit pay- | <ul style="list-style-type: none"> • A term deposit product with a fixed profit rate. The profit is derived from the commodity purchase and sale transactions based on the profit rate determined upfront. |

| | | | | |
|--|--|--|----------------------------|--|
| | | | ment (tenure above 1 year) | |
|--|--|--|----------------------------|--|

b) Investment Account.

BIMB has two types of investment accounts. The features and benefits of the accounts are tabled below.

Table 8: Different types of Investment products, Bank Islam Website.

| Name of product | Applicable Shariah Contract | Type of investment account | Investment Tenure | Return on IAH | | | | | | | | | | |
|----------------------------|--------------------------------|---------------------------------|------------------------------------|---|--------------|----------|--|-----------|-----------------|------|------------------|------|-----------------|------|
| Wafiyah Investment Account | Wakalah Bil Istithmar Contract | Unrestricted Investment Account | Minimum 1 month- maximum 6 months | <table border="0"> <tr> <td>Product Rate</td> <td>Expected</td> </tr> <tr> <td></td> <td>Of Return</td> </tr> <tr> <td>Wafiyah 1 month</td> <td>3.60</td> </tr> <tr> <td>Wafiyah 3 months</td> <td>3.70</td> </tr> <tr> <td>Wafiyah 6 month</td> <td>3.80</td> </tr> </table> | Product Rate | Expected | | Of Return | Wafiyah 1 month | 3.60 | Wafiyah 3 months | 3.70 | Wafiyah 6 month | 3.80 |
| Product Rate | Expected | | | | | | | | | | | | | |
| | Of Return | | | | | | | | | | | | | |
| Wafiyah 1 month | 3.60 | | | | | | | | | | | | | |
| Wafiyah 3 months | 3.70 | | | | | | | | | | | | | |
| Wafiyah 6 month | 3.80 | | | | | | | | | | | | | |
| Al-Awfar Account | Mudharabah Contract | Unrestricted Investment Account | No fixed minimum or maximum tenure | Profit sharing ratio Bank: Customer 98:2 | | | | | | | | | | |

From the information above, just like CIMB Islamic bank, Bank Islam also uses *wadiyah yad dhamanah* and *tawarruq* for deposits. As for the investment products, it uses *mudharabah* and *wakalah bil-Istithmar*. There is equal distribution of profit between the bank and the customer.

After the deposit and investment products features are given above, an analysis is done on the bank's deposits in comparison to the

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shariah contracts used to evaluate the contract mostly used by the bank.

The extract below from the annual report of BIMB Bank shows the bank's deposits according to the shariah contracts used.

Table 9: Note 15 of the Financial Statements for the year 2015, Bank Islam annual report 2015.

15. DEPOSITS FROM CUSTOMERS

(a) By type of deposit

| | GROUP | | BANK | |
|---|----------------------|----------------------|----------------------|----------------------|
| | 31.12.2015 RM'000 | 31.12.2014 RM'000 | 31.12.2015 RM'000 | 31.12.2014 RM'000 |
| Saving Deposit | 4,674,687 | 5,091,650 | 4,674,687 | 5,091,650 |
| <i>Wadiah</i> | 4,674,687 | 3,052,428 | 4,674,687 | 3,052,428 |
| <i>Mudharabah</i> | - | 2,039,222 | - | 2,039,222 |
| Demand Deposit | | | | |
| <i>Wadiah</i> | 10,581,603 | 10,535,088 | 10,613,180 | 10,539,744 |
| Term Deposit | 28,205,616 | 25,296,865 | 28,212,636 | 25,303,433 |
| Special Investment Accounts | | | | |
| <i>Mudharabah</i> | 26,058 | 5,022,921 | 26,058 | 5,025,258 |
| General Investment Accounts | | | | |
| <i>Mudharabah</i> | 478,802 | 919,816 | 478,802 | 919,816 |
| Term & Special term deposit-i | | | | |
| <i>Tawarruq</i> | 24,406,269 | 17,895,591 | 24,413,289 | 17,899,695 |
| Negotiable Islamic Debt Certificates (NIDC) | | | | |
| <i>Waheed-i</i> | 6,843 | 134,453 | 6,843 | 134,580 |
| <i>Ziyad</i> | - | 95,059 | - | 95,059 |
| Others | 94,444 | 86,729 | 94,444 | 86,729 |
| Total Deposits | 43,556,350 | 41,010,332 | 43,594,947 | 41,021,556 |

The extract below shows the investment funds from the customers in form of restricted or unrestricted investment accounts.

Table 10: Note 16 of the Financial Statements for the year 2015, Bank Islam annual report 2015.

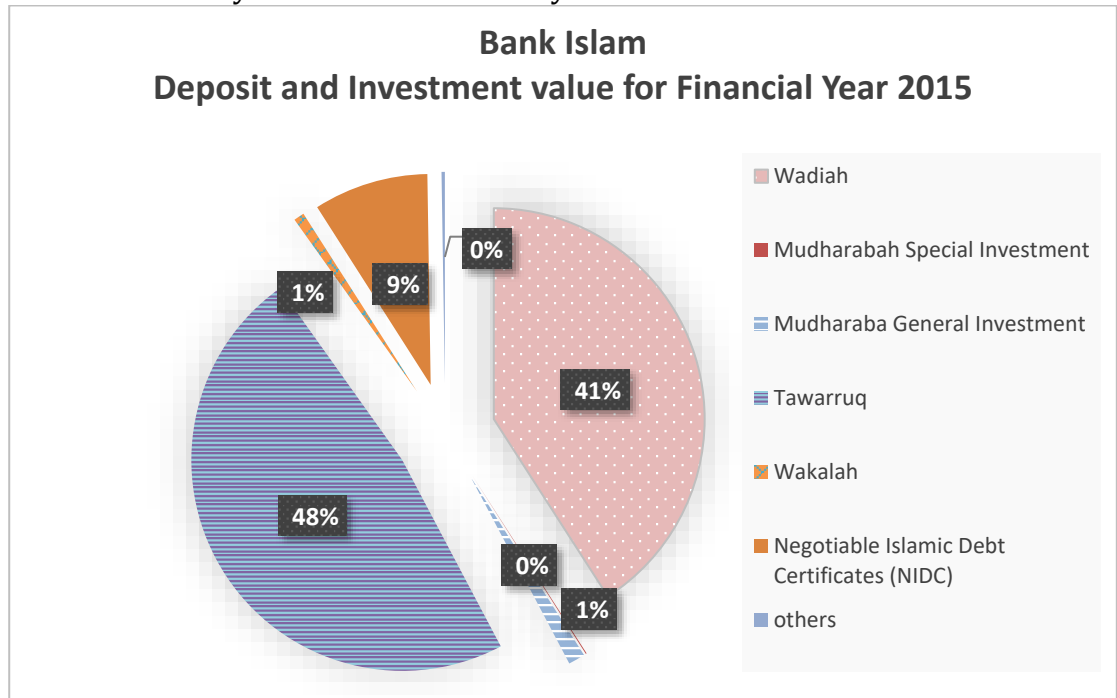
16. INVESTMENT ACCOUNTS OF CUSTOMERS

The Bank launched its unrestricted investment accounts on 1 June 2015 under the Mudharabah and Wakalah concept.

| | GROUP AND BANK | |
|---|----------------------|----------------------|
| | 31.12.2015 RM'000 | 31.12.2014 RM'000 |
| Unrestricted investment accounts | | |
| Without maturity | | |
| <i>Mudharabah</i> | 461,312 | - |
| With maturity | | |
| <i>Wakalah</i> | 214,793 | - |
| | 676,105 | - |
| Restricted investment accounts ^ | | |
| With maturity | | |
| <i>Wakalah</i> | 82,567 | - |

^ Restricted investment account ("RIA") is an arrangement between the Bank and its ultimate holding entity where the Bank acts as the investment agent to manage and administer the RIA and its underlying assets.

The two figures 3 and 4 are pie charts below demonstrate the share of the deposit and investment funds according to the shariah contracts used by the Bank Islam in the year 2015 and 2014



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Figure 3: Authors presentation: Pie Chart demonstrating different contracts applied in deposit and investment products, Bank Islam, 2015

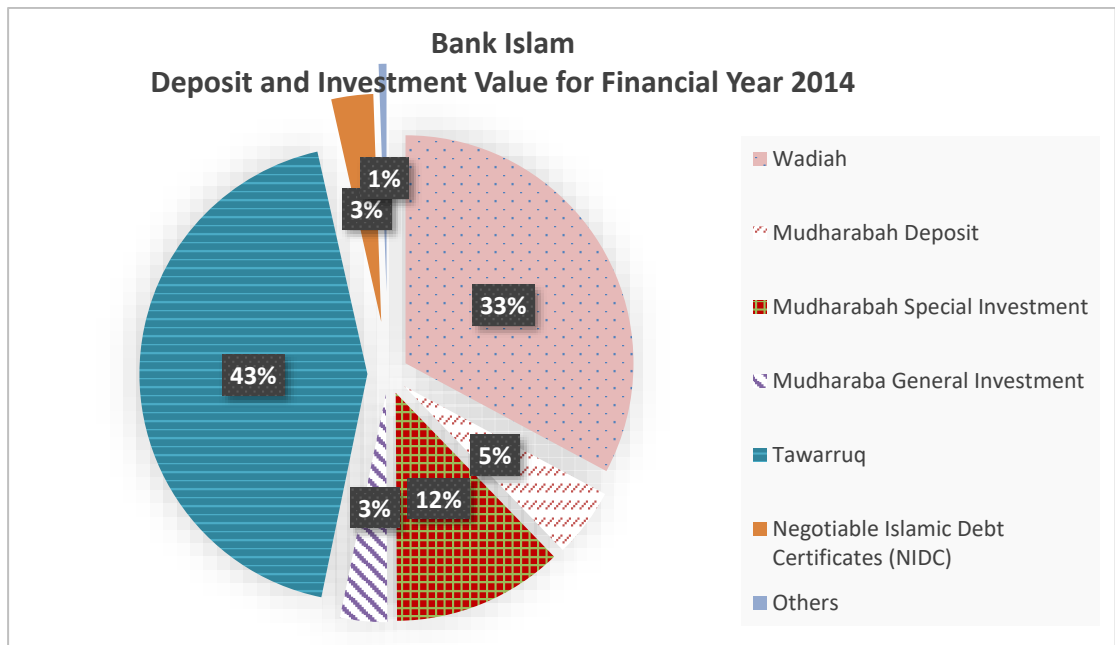


Figure 4: Authors presentation: Pie Chart demonstrating different contracts applied in deposit and investment products, Bank Islam, 2014

From the analysis above, it shows that the popular contract used is *tawarruq* (commodity murabaha). In the year 2014, deposits under *tawarruq* were 43% of the deposit which increased to 48% in 2015. Generally, the deposits value against investment deposits increased from approximately 85% in the year 2014 to almost 98% in the year 2015.

Conclusions

From the analysis of the annual reports, it is evident that the investment products are less taken compared to deposit products. All the products offered by CIMB Islamic bank and Bank Islam comply with IFSA guidelines. The distinctive features of the deposit products and investment products are well communicated to the customers.

The customers' purpose of depositing the funds with the bank is determined at the point of opening the account and based on the intention, the correct contract ('*aqd*') applies. The customers are advised on the account to open depending on the purpose of opening the account. The results above show that the investment volumes are very low compared to the deposit volumes which can be attributed to many reasons. One of them can be customer's unwillingness to take risks. The other reason can be lack of knowledge and information on the investment products. Further research can be done to investigate the customers' perception towards the investment accounts and understand the reasons as to why the uptake of investment products is very low compared to the deposit products.

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Conflict Of Interests

The authors declare no competing interests such as financial or personal relationship, regarding the writing of this article.

Authors' Contributions

The authors designed the study and gathered the literature and wrote the article.

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