



**ISLAMIC BANKERS  
RESOURCE CENTRE**

<https://islamicbankers.me>

# ISLAMIC INVESTMENT PRODUCTS

August 2017

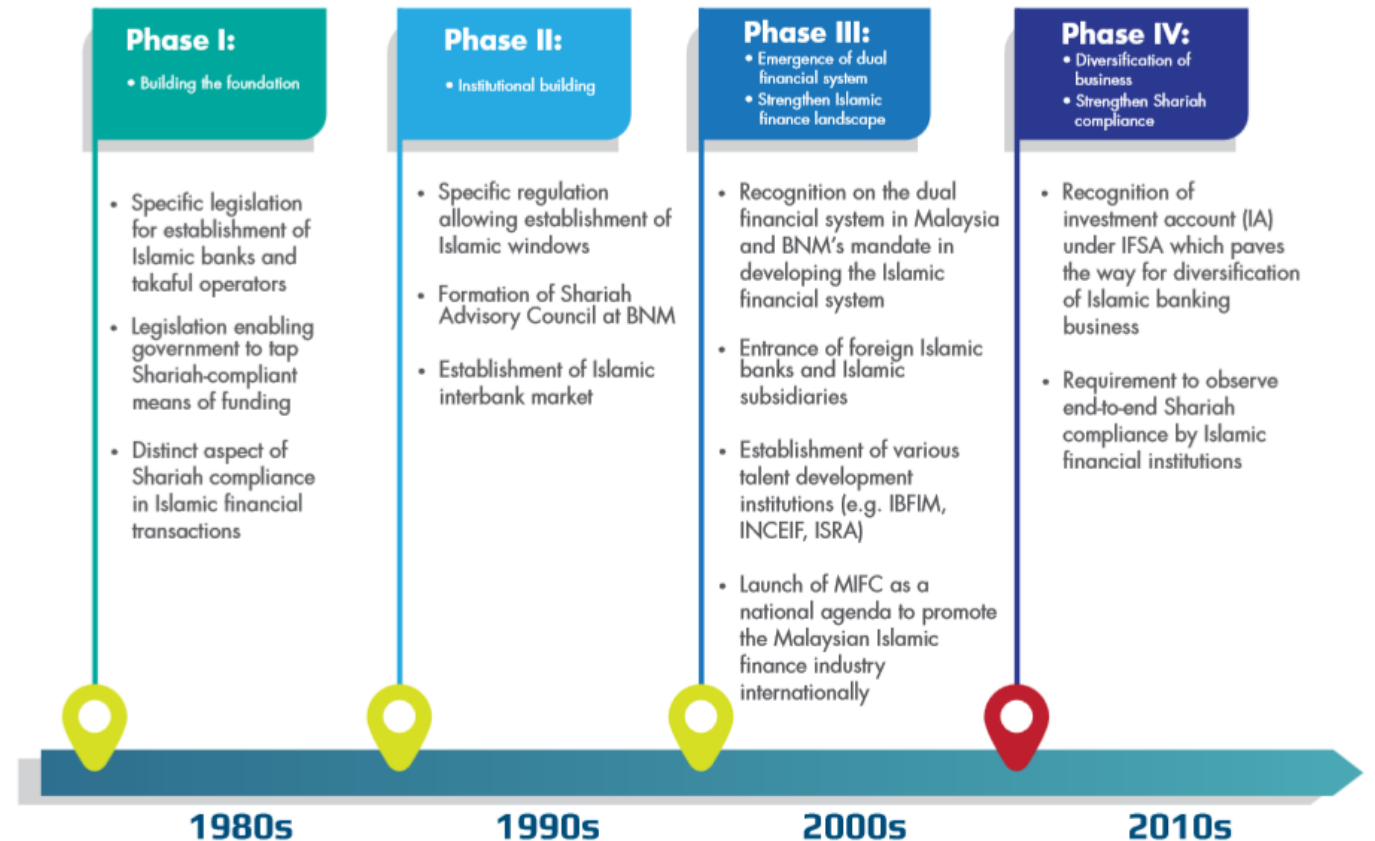
# THE MALAYSIAN MASTERPLAN

From the establishment of the first Islamic Bank in 1983, Malaysia has long envisioned to establish itself as a significant global player in Islamic Banking.

This vision has been nurtured by BNM for many years which started with the Islamic Financial Masterplan in the early 2000's with the eventual vision of establishing Islamic Banking at 40% of all banking business by 2020.

Malaysia is now seen as one of the key Islamic Financial centres globally

## JOURNEY OF ISLAMIC FINANCE DEVELOPMENT IN MALAYSIA

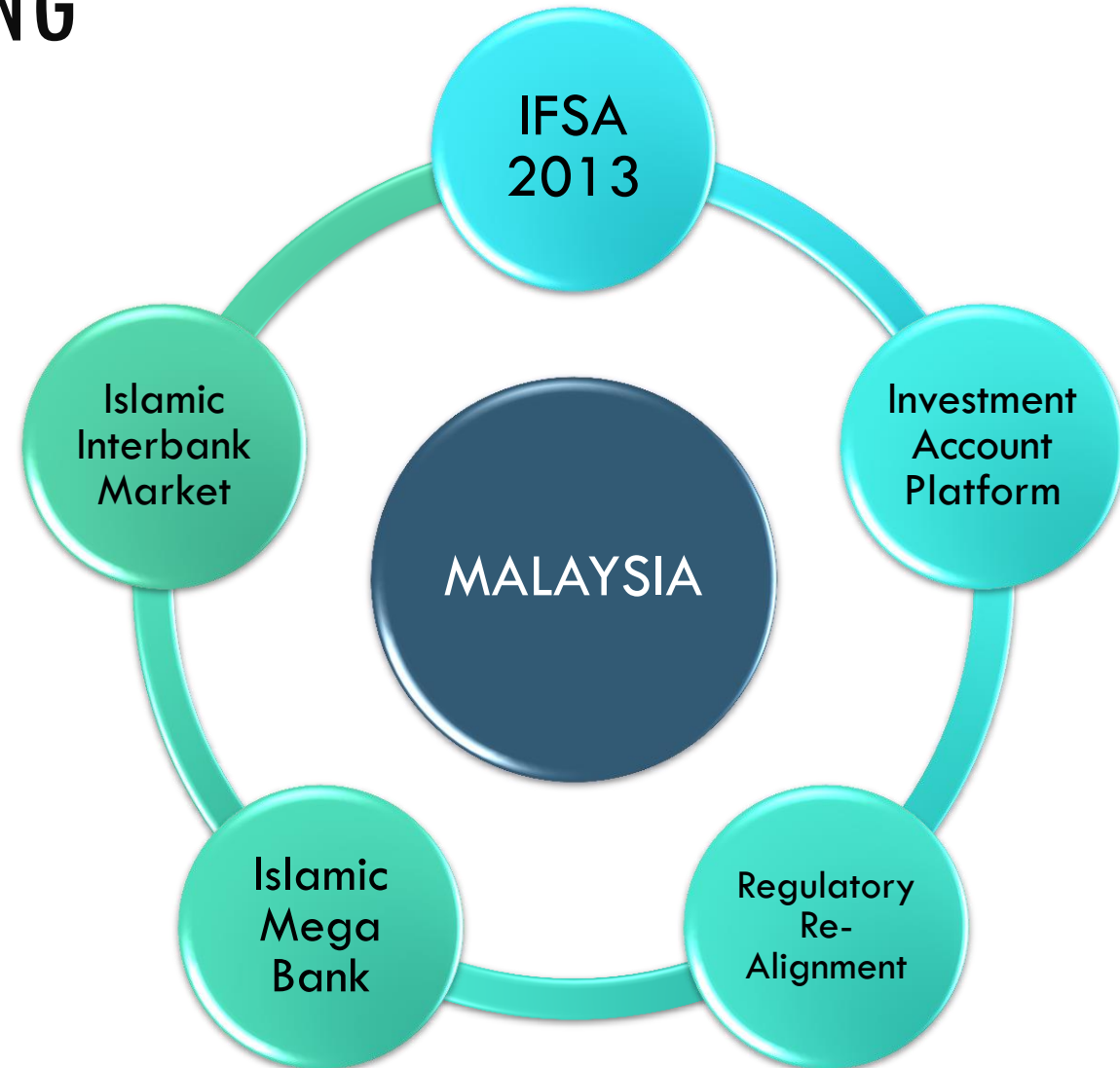


Source: Bank Negara Malaysia

Note: IBFIM – Islamic Banking and Finance Institute Malaysia; INCEIF – International Centre for Education in Islamic Finance; ISRA – International Shariah Research Academy for Islamic Finance; MIFC – Malaysia International Islamic Financial Centre

# BIG CHANGES IN ISLAMIC BANKING

- Support from Government of Malaysia and the Market has been tremendous
- Malaysia aims to increase competitiveness within the region, ultimately grow internationally
- To support the national agenda, strong push for compliance to international standards including Basel requirements
- IFSA is intended to streamline the industry



# REBUILDING THE FOUNDATION

- For the past few years, BNM has re-looked at the Islamic Banking industry vs the development from the middle east
- The intention is to continue as a global financial centre in Islamic Banking
- Steps are being taken to rationalise existing local contracts to align with international standards
- IFSA 2013 combined and updated the individual Acts (IBA, Takaful Act) into one, and made Policies and Guidelines into law

2013

- Islamic Financial Services Act (2013)
- Standards – Murabahah
- Operational and Shariah Practices – Mudharabah / Musyarakah

2014

- Investment Account Guidelines
- Rate of Return Framework
- Concept Papers – Ijarah / Istisna' / Liquidity Coverage Ratio

2015

- Standards – Musharakah / Mudarabah / Tawarruq / Istisna'

2016

- Liquidity Coverage Ratio
- Capital Adequacy Framework for Islamic Banking Institutions
- Standards : Ijarah / Wadiah / Hibah / Qard / Kafalah / Wakalah

2017

- Capital Funds for Islamic Banks
- Capital Adequacy Framework for Islamic Banking Institutions (Risk Weighted Assets)
- Standards : Wa'd / Kafalah (Revised)



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# ISLAMIC FINANCIAL SERVICES ACT 2013 (IFSA)

Consolidation of all existing  
Islamic Banking and Takaful  
regulations into one

# ISLAMIC FINANCIAL SERVICES ACT 2013

- ✓ Sec 6 IFSA : The principal regulatory objectives of the Act are to promote financial stability and compliance with Shariah

## Sec 28 (1)

- IFI shall at all times ensure Shariah Compliance

## Sec 28 (2)

- Shariah Compliance refer to compliance of the SAC

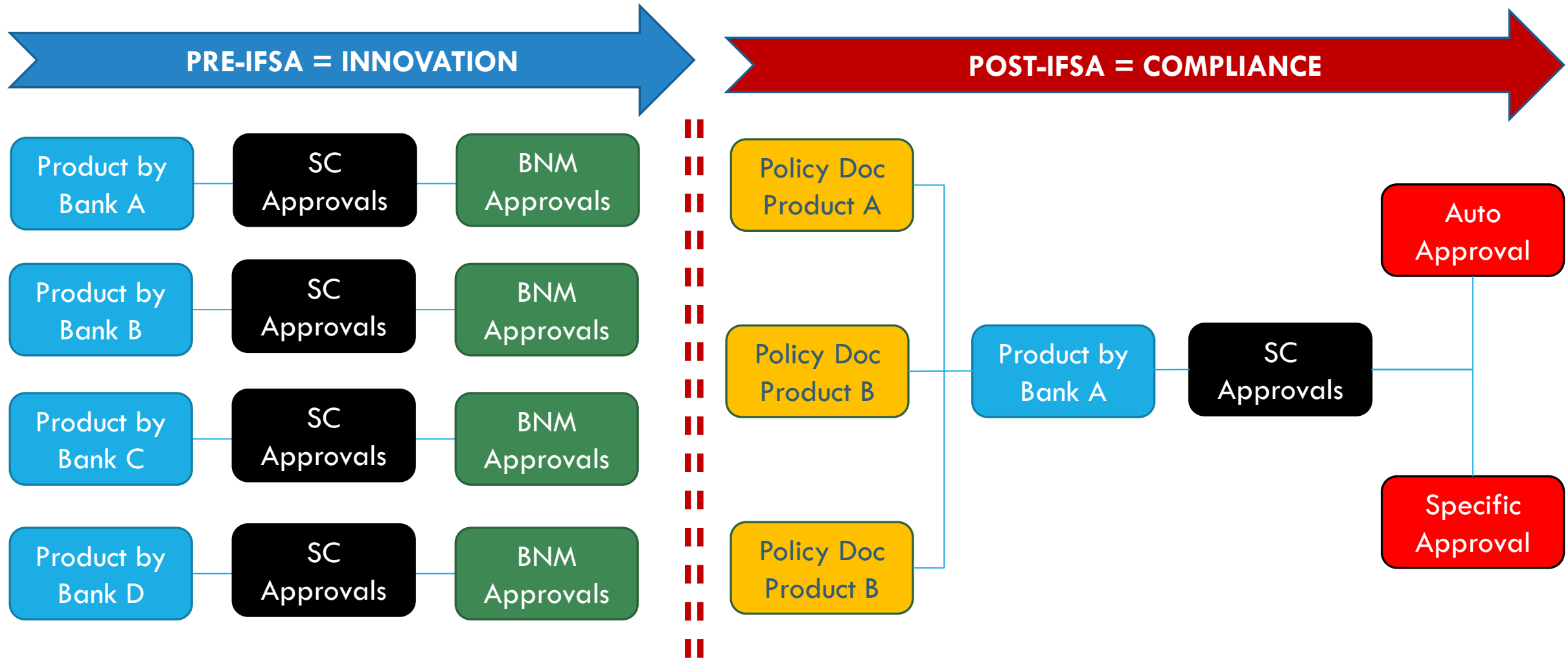
## Sec 28 (3)

- Any incompliance activities needs to be notified to SC, the activities to be ceased, and the activites reported within 30 days

## Sec 28 (4)

- Breach of Shariah Compliance may result in 8 years imprisonment, a fine of RM25 million or both

# BEHAVIOUR CHANGE – PRODUCT DESIGN



# SIGNIFICANT IMPACT TO ISLAMIC BANKING



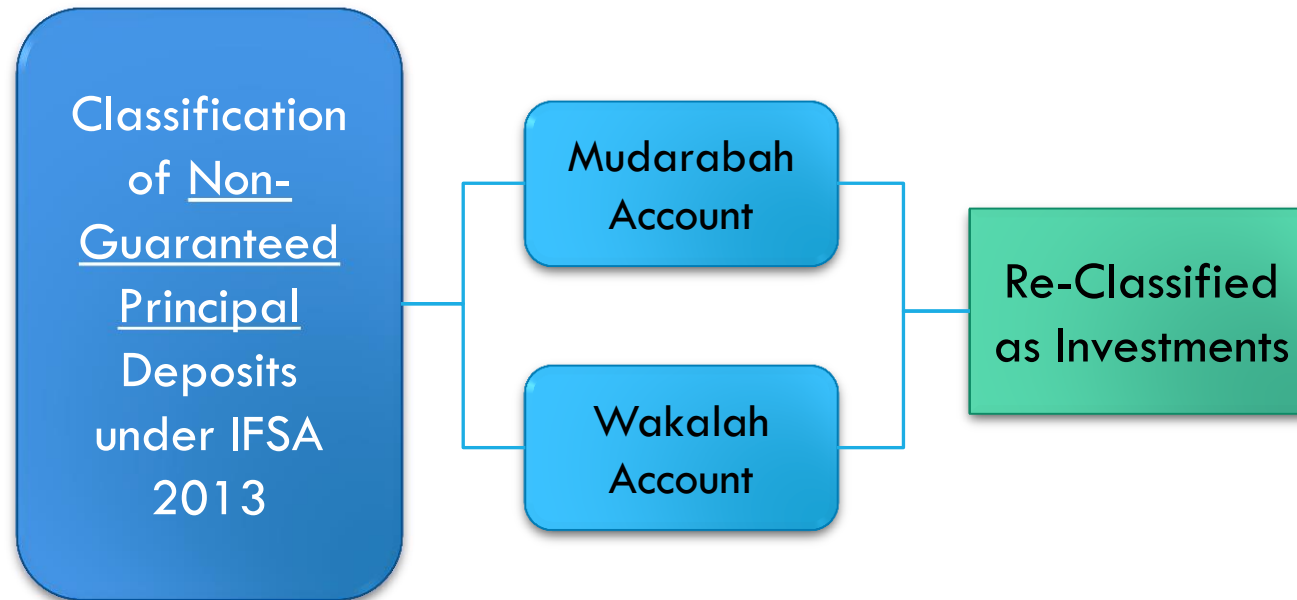
ONE OF THE BIGGEST IMPACT IS THE DEFINITION OF DEPOSITS & INVESTMENTS

- a) If a deposit, based on the Islamic contract, guarantees the principal amount to customers upon demand, it is classified as **DEPOSIT**
- b) If a deposit, based on the Islamic contract, do not guarantees the principal amount to customers upon demand, it is classified as **INVESTMENT**





# DEPOSIT RE-CLASSIFICATION



1. Investment type of Disclosure Requirements
2. Risk Sharing infrastructure i.e. Profit Sharing / Loss Sharing
3. Principal Not Guaranteed i.e. No PIDM cover
4. Oversight function on the management of Funds required
5. Investments to be tagged to Specific Assets for performance

Specific Assets requires performance monitoring, capital allocation, portfolio management of a mature portfolio.



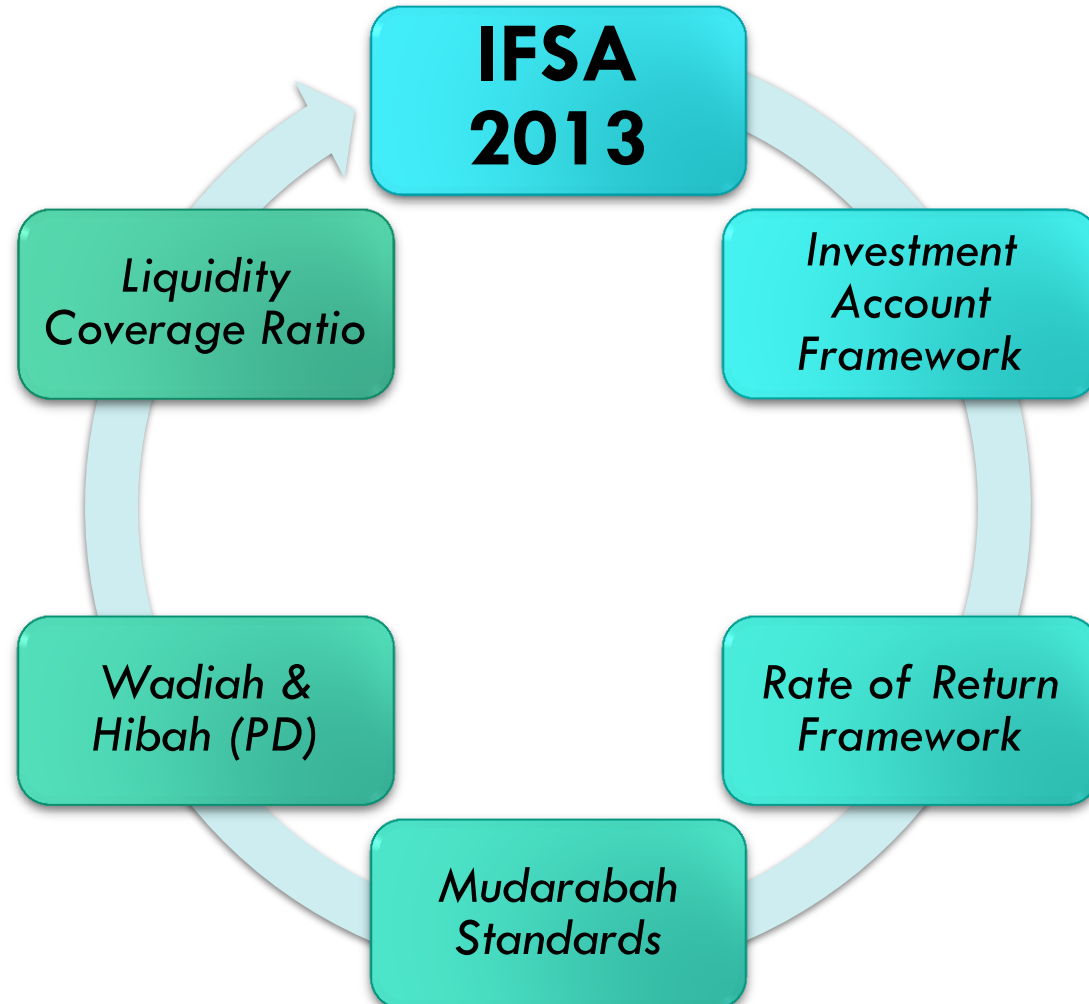
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# ISSUANCE OF INVESTMENT ACCOUNT FRAMEWORK BY BNM

Creating a viable Investment  
Account framework

# INVESTMENT ACCOUNT FRAMEWORK



## GOVERNING REGULATIONS

- + Investment Account Framework
- + Rate of Return Framework
- + Liquidity Coverage Ratio
- + Mudarabah Standards

# SUMMARY OF RELATED REGULATIONS

## Investment Account

- Defines “Non-Principal Guarantee” as Investment
- Methodology of Management of Investment Account
- Use of Unrestricted Account (UA) and Restricted Account (RA)
- Risk Management, Transparency and Disclosure, Liquidity Management and Capital Adequacy

## Rate of Return

- Management of Funds
- Management of UA and RA
- Proportional Tagging
- Distribution of Profit
- Disclosure and Reporting
- Calculation Table

## Mudarabah / Musharakah / Wakalah Standards

- Operational standards
- Utilisation of Funds
- Valuation of Investment Pool
- Management of Funds
- Distribution of Profit

## Liquidity Coverage Ratio (LCR)

- LCR Minimum Requirement (60% for 2015 with yearly increments)
- Stock of High Quality Liquid Asset
- Expected Cash Outflows vs Expected Cash Inflow
- Investment Account requirements
- Reporting Requirements



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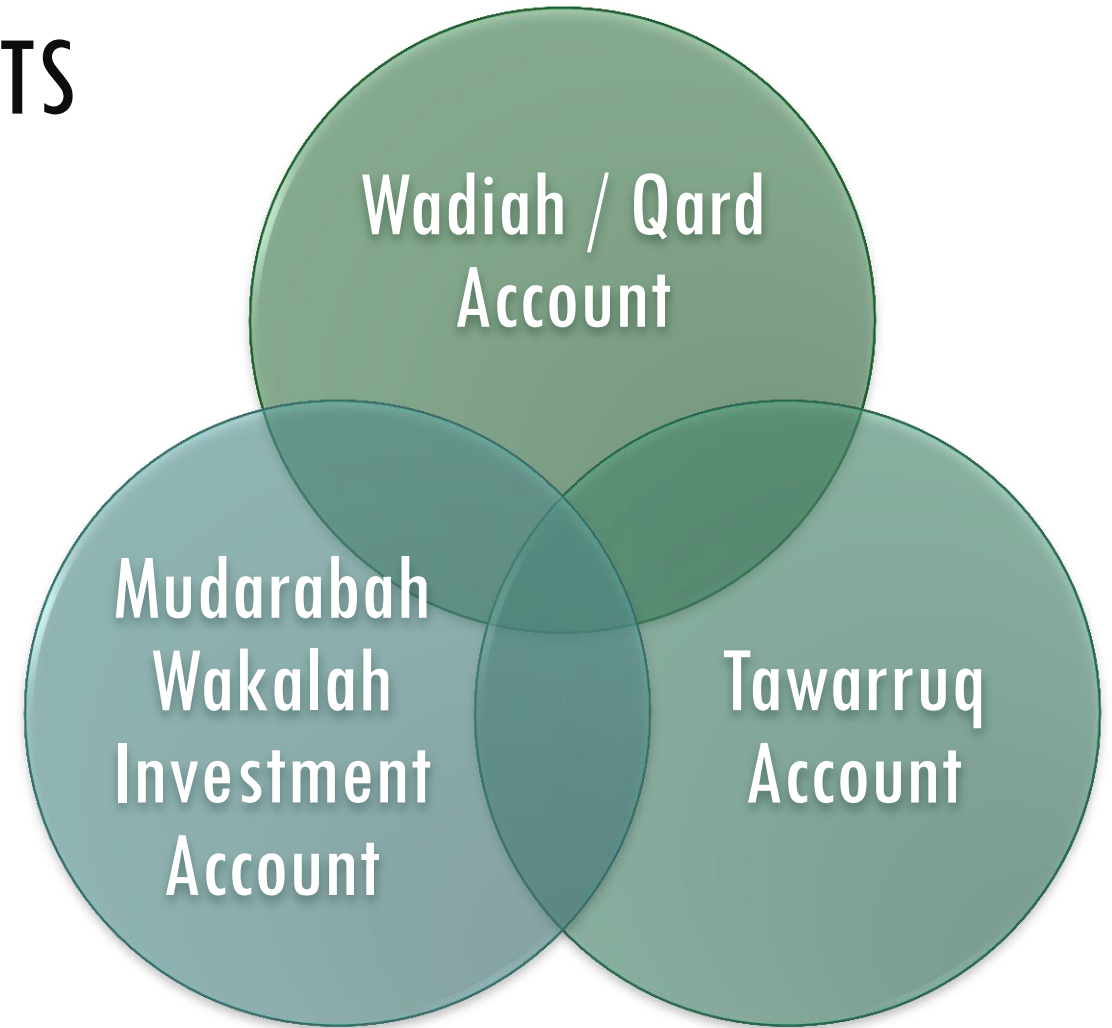
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# IMPACT OF REGULATORY REQUIREMENTS

Transition plan to opt-in into  
Investment Account by 30 June  
2014 & 2015

# OVERVIEW ON DEPOSIT PRODUCTS

- Traditionally, the Islamic Current Account and Savings Account are offered under the contract of Wadiah (Safekeeping) and Mudarabah (Profit Sharing)



# RE-CLASSIFICATION OF DEPOSITS

## Pre-IFSA : Deposit Classification based on Salient Features

### Deposits:

- ✓ Current Account
- ✓ Savings Account
- ✓ Money Market Deposits
- ✓ Interbank Placements
- ✓ General Investment Accounts
- ✓ Special Investment Accounts
- ✓ Profit Sharing Investment Accounts
- ✓ Structured Investments
- ✓ Loan



## Post-IFSA : Classification based on Contractual Relationship

### Deposits – Principal Protected (Qard, Tawarruq, Wadiah)

- ✓ Current Account
- ✓ Savings Account
- ✓ Interbank Murabahah Placements
- ✓ Commodity Murabahah Term Deposit
- ✓ Loan



### Investments – Principal Non-Protected (Mudharabah, Wakalah Fi Istihmar, Musyarakah)

- ✓ Current Account (features)
- ✓ Savings Account (features)
- ✓ Unrestricted Investment Account
- ✓ Restricted Investment Account
- ✓ Structured Investments



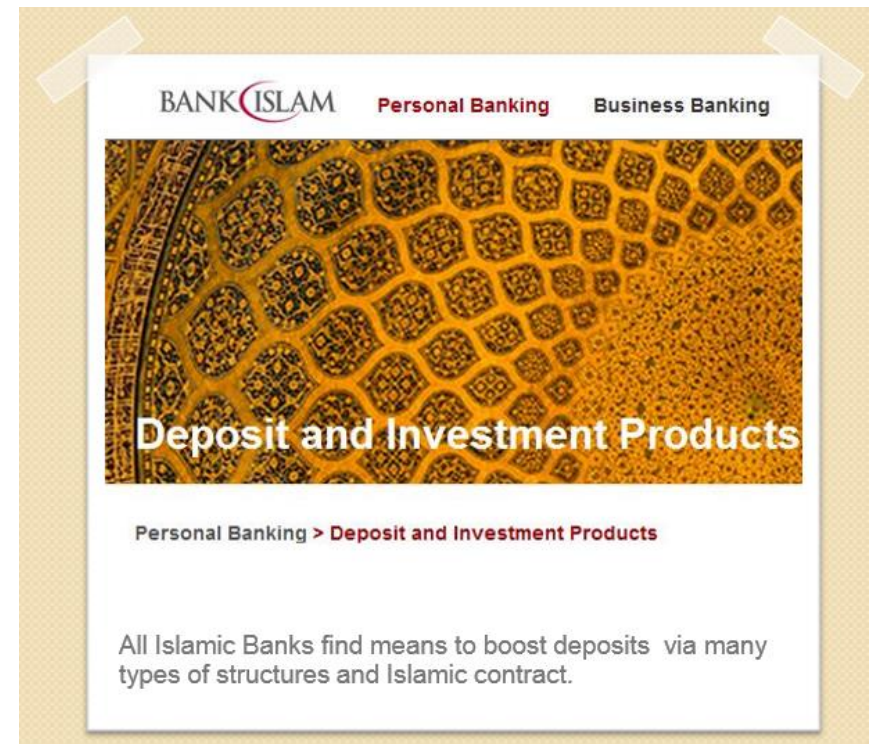
# TRANSITION TO IA

Following the gazette of IFSA 2013, BNM issued the Investment Account guidelines and defined the “Investment” criteria as follows:

*“Investments” are non-capital protected instruments which is consistent with the Mudharabah, Wakalah Fi Istihmar, and Musyarakah deposit contracts*

*“Investments” carries an inherent market / investment risks, and customers must understand the structure as an “investor”*

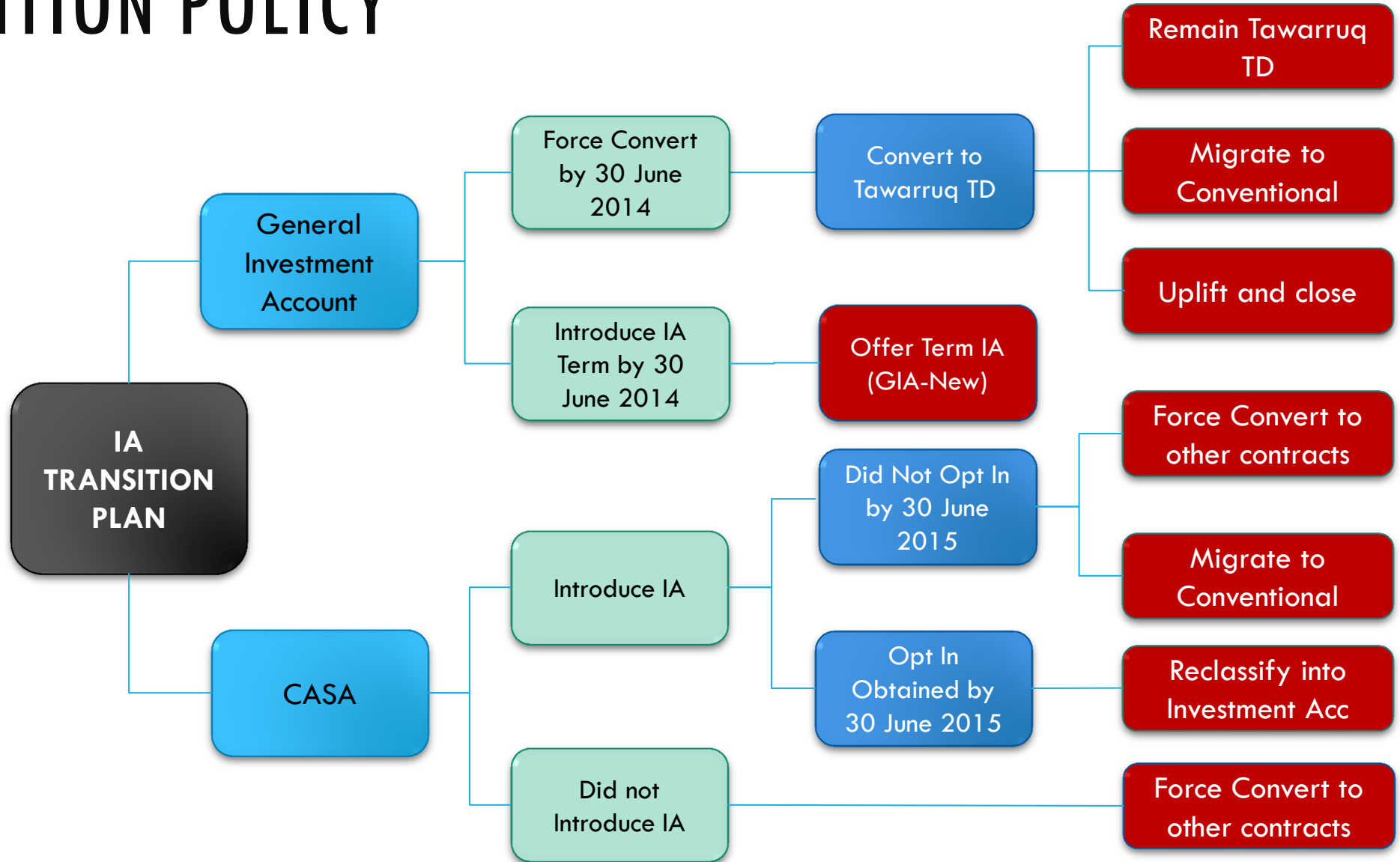
*As an “investor”, the customer must understand the risks based on their profile. Customer must expressly accept the risks to enter into an Investment product.*



If the Bank is not able to obtain express consent from customer to enter into IA, their accounts must be migrated to a “lower risk” product.



# THE TRANSITION POLICY





# INITIAL DEVELOPERS FOR INVESTMENT ACCOUNTS



Maybank Islamic : Existing Portfolio



Bank Islam : Financial Instruments & Existing Portfolio



Amlslamic Bank : Financial Instruments



KFH : Financial Instruments



Standard Chartered Saadiq : Dedicated Assets

Following the Transition Plan issued by BNM, several Banks had shown interest in pushing for Investment Account to meet the requirements.

Each of the 5 Banks submitted proposals to introduce their structures based on their operational capabilities.

Approval was obtained and the products became the benchmark for development for other Banks. Currently 8 Islamic Banks are offering IA.

# CONVERSION SUCCESS OF INVESTMENT ACCOUNTS (INDUSTRY IN 2014)

FOCUSED ON RETAINING HIGH VALUE CUSTOMERS

## GENERAL INVESTMENTS

55% to 64% → TAWARRUQ TD-i

(via forced conversion on maturity and early upliftment)

## CURRENT / SAVINGS ACC

7% to 21% → IA

(via opt-in conversion by 30 June 2014, else other contracts)

# IA 2 YEARS LATER

## DIFFERENCES

**Customer's need**

**Contractual relationship**

**Transaction structure**

**Profit distribution**

**Shariah contracts**



**INVESTMENT ACCOUNT**

Partnership/investment agent

Investor (You) & entrepreneur (your Islamic bank)

Fund is managed by Islamic banks for investment in Shariah compliant assets

Profit sharing rate

- Mudharabah (profit sharing)
- Musyarakah (profit and loss sharing)
- Wakalah (agency)



**ISLAMIC DEPOSITS**

Safekeeping

Customer (You) & custodian (your Islamic bank)

Deposit is placed with custodian for safe keeping

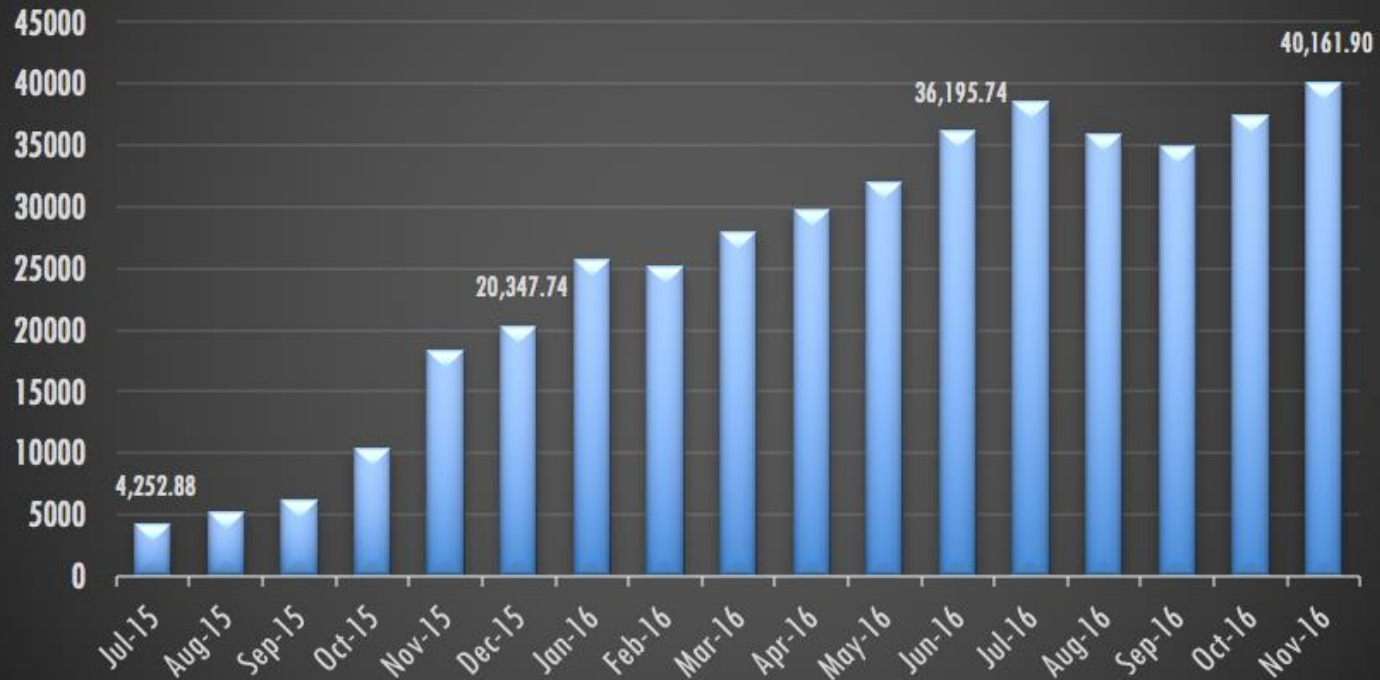
Custodian's discretion

- Wadiah (safekeeping)
- Qard (benevolent loan)
- Tawarruq (commodity sale)

**STRONG PUSH, INCLUDING AWARENESS INITIATIVES, BY BNM FOR THE IMPLEMENTATION OF INVESTMENT ACCOUNT FOR THE PAST 2 YEARS HAS RESULTED IN SIGNIFICANT GROWTH IN THE INDUSTRY**

• Investment intermediation activities saw encouraging growth: Investment accounts (IA) managed by Islamic banks increased to RM73.7bil to account for 12.2% of total Islamic deposits and IA within the Islamic banking system in 2016 (compared to RM47.1bil and 8.6% in 2015).

## Investment Account Growth ('Mil)



Source : BNM Statistical Bulletin & BNM Website  
Figures excluding IA placed by Financial Institutions

# Investment Account

Grow wealth and value through profit sharing



## Guide to Consumer on Investment Account

A new product offering that provides you the opportunity to invest and share the profit from Shariah-compliant investment activities.

### Key Features of Investment Account



Specific features of investment Account depends on the contract used in the offering:

- Mudharabah** (profit sharing and loss bearing)
- Musyarakah** (profit and loss sharing)
- Wakalah** (agency agreement)

## Wealth Creation Through Profit Sharing

Interested? Several investment tips:



## List of Islamic Banks offering Investment Account

- |   |  |
|---|--|
| Affin Islamic Bank Berhad                                   | HSBC Amanah Malaysia Berhad                    |
| Al Rajhi Banking & Investment Corporation (Malaysia) Berhad | Hong Leong Islamic Bank Berhad                 |
| Alliance Islamic Bank Berhad                                | <b>Kuwait Finance House (Malaysia) Berhad*</b> |
| <b>AmBank Islamic Berhad*</b>                               | <b>Maybank Islamic Berhad*</b>                 |
| Asian Finance Bank Berhad                                   | OCBC Al-Amin Bank Berhad                       |
| <b>Bank Islam Malaysia Berhad*</b>                          | Public Islamic Bank Berhad                     |
| <b>Bank Muamalat Malaysia Berhad*</b>                       | <b>RHB Islamic Bank Berhad*</b>                |
| <b>CIMB Islamic Bank Berhad*</b>                            | <b>Standard Chartered Saadiq Berhad*</b>       |

\* Islamic banks currently offering Investment Account



As at 2016

## LIST OF ISLAMIC BANKS CURRENTLY OFFERING INVESTMENT ACCOUNT

- Affin Islamic Bank Berhad
- Al Rajhi Banking & Investment Corporation (Malaysia) Berhad
- Alliance Islamic Bank Berhad
- AmBank Islamic Berhad\***
- Asian Finance Bank Berhad
- Bank Islam Malaysia Berhad\***
- Bank Muamalat Malaysia Berhad\***
- CIMB Islamic Bank Berhad\***
- HSBC Amanah Malaysia Berhad
- Hong Leong Islamic Bank Berhad
- Kuwait Finance House (Malaysia) Berhad\***
- Maybank Islamic Berhad\***
- OCBC Al-Amin Bank Berhad
- Public Islamic Bank Berhad
- RHB Islamic Bank Berhad\***
- Standard Chartered Saadiq Berhad\***

\*Islamic banks currently offering Investment Account



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# SHARIAH STRUCTURES

Impacted structures under IFSA  
2013

# PRODUCT MAP BASED ON SHARIAH CONTRACT

	Wadiah	Qard	Tawarruq	Mudarabah	Wakalah
<b>Current Account</b>	√	√	√	√	√
<b>Savings Account</b>	√	√	√	√	√
<b>Fixed Deposit</b>			√	√	√
<b>Structured Investments #</b>			√	√	√
<b>Interbank Placement / Deposit</b>	√	√	√		
<b>Money Market Deposits</b>	√	√	√		
<b>Excess and Overdraft</b>		√			
<b>Profit Sharing Investment Account (PSIA)</b>				√	√

Prior to IFSA 2013, the product map for Deposits are diverse to cater for various requirements

# Structured Investments are excluded from this IA discussion as approval for such products are given by Securities Commission (not BNM)

# IMPACTED CONTRACTS

The essential Shariah requirements under the following contracts are embedded into the operational structure and become law under IFSA 2013.

- ✓ MUDHARABAH
- ✓ WAKALAH FI ISTHIHMAR
- ✓ MUSYARAKAH

## *Mudharabah*

Entrepreneurial relationship

Bank Manages customer funds

Profit Sharing of Declared Investment Returns

Losses if any, borne by Customer

## *Wakalah Fi Isthihmar*

Agent of Customer to Invest

Bank as Agent invest customers funds

Profit, if any, earned by Customer, Bank earns Agency Fee

Losses if any, borne by Customer

## *Musyarakah*

Partnership in Investment

Bank and customer jointly invest and Bank manages fund

Profit if any, is shared based on equity ratio

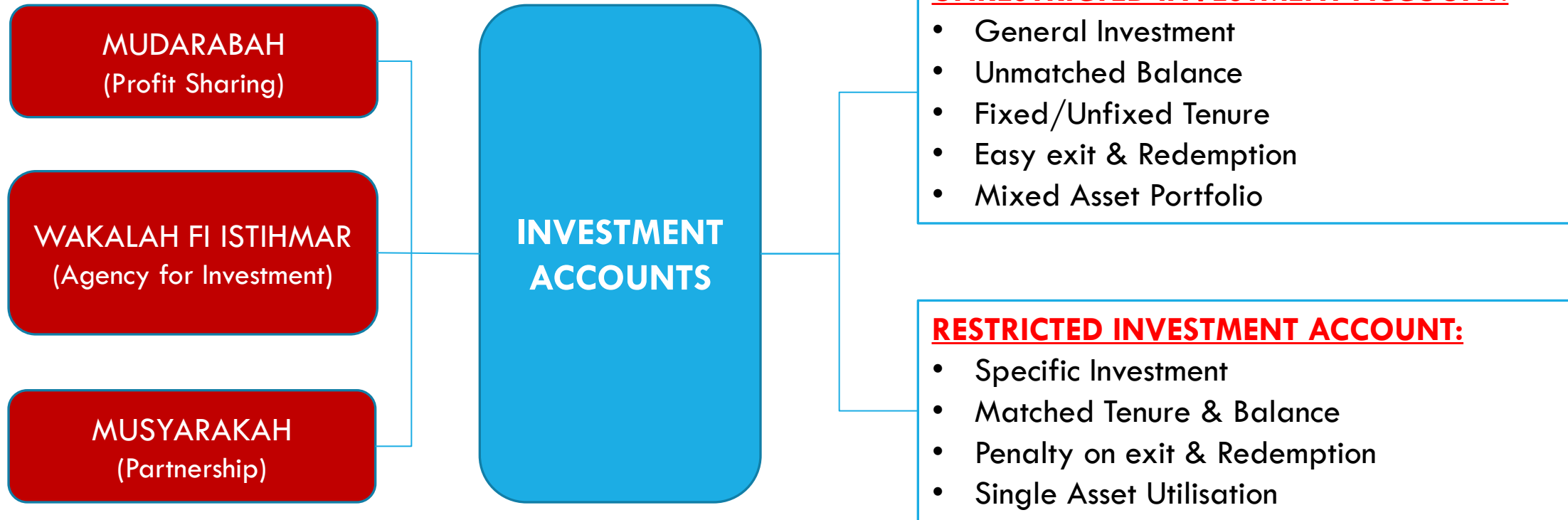
Losses if any, shared based on equity ratio



# DIFFERENCES : DEPOSITS VS INVESTMENTS

	Deposit Accounts	Investment Accounts
<b>Type of Shariah Contracts</b>	Wadiah, Qard, Tawarruq	Mudharabah / Musyarakah /Wakalah Fi Isthihmar
<b>Principal</b>	Protected	Not Protected
<b>Profit</b>	Discretionary / Fixed Contracted	Profit Sharing / Earned Fee
<b>Loss</b>	Not Applicable	Lower Returns / Loss of Capital
<b>Treatment on Balance Sheet</b>	On-balance Sheet	Off-Balance Sheet or On-Balance Sheet
<b>Risk Profile</b>	No Risk	Low/Medium Risk
<b>Tenure</b>	On Demand	Minimum Investment tenure
<b>PIDM Coverage</b>	Yes	No
<b>Disclosure Format</b>	Savings Account / Fixed Deposits	Unit Trust / Structured Investment
<b>Investment Assets</b>	General Investment Account (Unrestricted)	Defined Investment Account i.e. Unrestricted Investment Account (URIA) or Restricted Investment Account (RIA)
<b>Customer Documents</b>	Terms and Conditions	PDS, Terms and Conditions, Performance Report and Risk Warning Statements

# TYPES OF INVESTMENT ACCOUNTS



# PROFIT CALCULATIONS

- ✓ The Bank will inform the Indicative Profit Rate (IPR) at the point of placement. The actual profit rate shall be determined on maturity.
- ✓ The Bank will earn a profit for its investment income as entrepreneur for profit, or earn an agreed fee in return for its efforts and expertise.
- ✓ Distribution of Profit/Fees to be made at maturity.

## Mudharabah

Determine the Profit Sharing Ratio (PSR)

Based on Actual Profit

Distributed according to PSR

Principal (P) X Time (T) X Rate (R) x PSR

## Wakalah Fi Istihmar

Determine the Agency Investment Terms

Based on Actual Profit

After Agency Fees, Profit belongs to Investor

Principal (P) X Time (T) X Rate (R) - Fees

# PROFIT DISTRIBUTION MECHANISM

SOURCES OF FUNDS	MAIN APPLICATION OF FUNDS	POOL OF INCOME	CALCULATION TABLE	DISTRIBUTION TABLE
MUDARABAH CURRENT ACCOUNT	STATUTORY RESERVES	FINANCING	TOTAL GROSS INCOME	NET DISTRIBUTABLE INCOME DISTRIBUTED AMONG CURRENT, SAVINGS & GENERAL INVESTMENT DEPOSITS, & DETERMINE THE DISTRIBUTION TO DEPOSITORS & BANK ACCORDINGS TO PROFIT SHARING RATIO.
MUDARABAH SAVINGS ACCOUNTS	LIQUIDITY REQUIREMENT	INVESTMENTS	+(-) PROVISION +(-) IIS +(-) IMPAIRMENT LOSS +(-) DIRECT EXPENSES +(-) PER	
UNRESTRICTED INVESTMENT ACCOUNT	FINANCING & LIQUIDITY REQUIREMENTS	NET TRADING & INVESTMENT INCOME	NET GROSS INCOME	
RESTRICTED INVESTMENTS ACCOUNTS	SPECIFIC FINANCING	NET RADING INCOME	(-) IBCF/SHF	
MUDARABAH INTERBANK ACCEPTANCE	TREASURY INVESTMENTS	OTHER INCOME	NET INCOME	
SALE AND BUY BACK AGREEMENT	TREASURY INVESTMENTS	OTHER INCOME	(-) AMOUNT DUE TO FI (-) INI (-) OTHER DEPOSITS	
SHAREHOLDER FUNDS	TREASURY INVESTMENTS	OTHER INCOME	NET DISTRIBUTABLE INCOME	



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# UNRESTRICTED INVESTMENT ACCOUNT (UA)

Low risk investment portfolio  
aimed at capital preservation

# WHAT IS UNRESTRICTED INVESTMENT ACCOUNT (UA)?

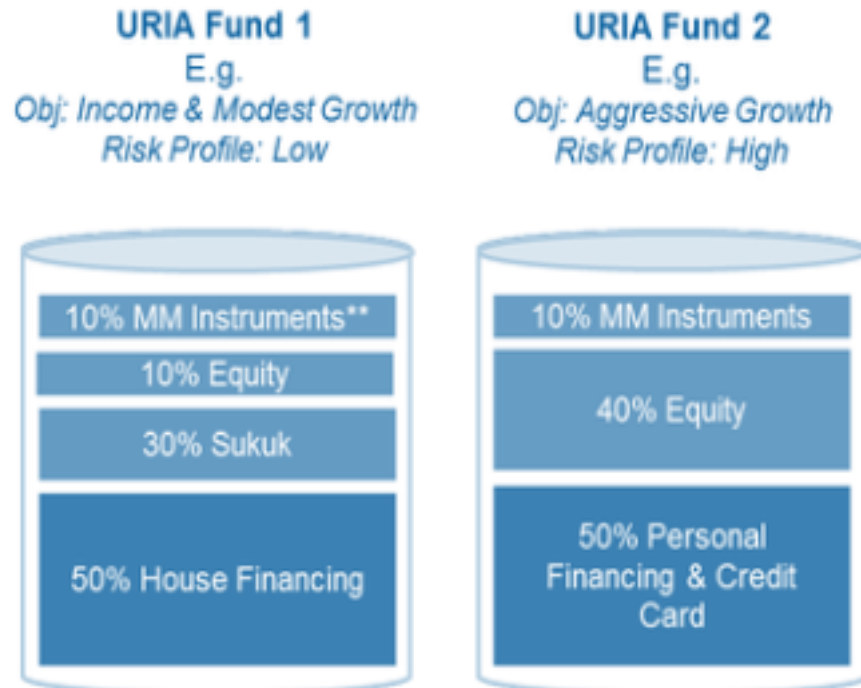
## (i) Unrestricted investment accounts

An unrestricted investment account ("URIA") refers to a type of investment account where the investment account holder ("IAH") provides the Bank with the mandate to make the ultimate decision without specifying any particular restrictions or conditions. The URIA is structured under Mudharabah and Wakalah contracts.

Any impairment allowances required on the assets for investment accounts are charged to and borne by the investors.

1. *To build a general pool of funds for investment (funding requirements)*
2. *Funded by multiple 3<sup>rd</sup> parties (a group of Investors)*
3. *Excludes the Capital Cost / Charge of Islamic Bank & from Collective Allowance computation*
4. *No specific investment mandate by Investors (general mandate)*
5. *Liquidity reserve requirement to comply with the Liquidity Coverage Ratio framework*
6. *May be classified as either an on-balance sheet or off-balance sheet items (usually on-balance sheet)*
7. *Risk of Non-Performing Financing (NPF) passed to Investors*

# UNRESTRICTED IA

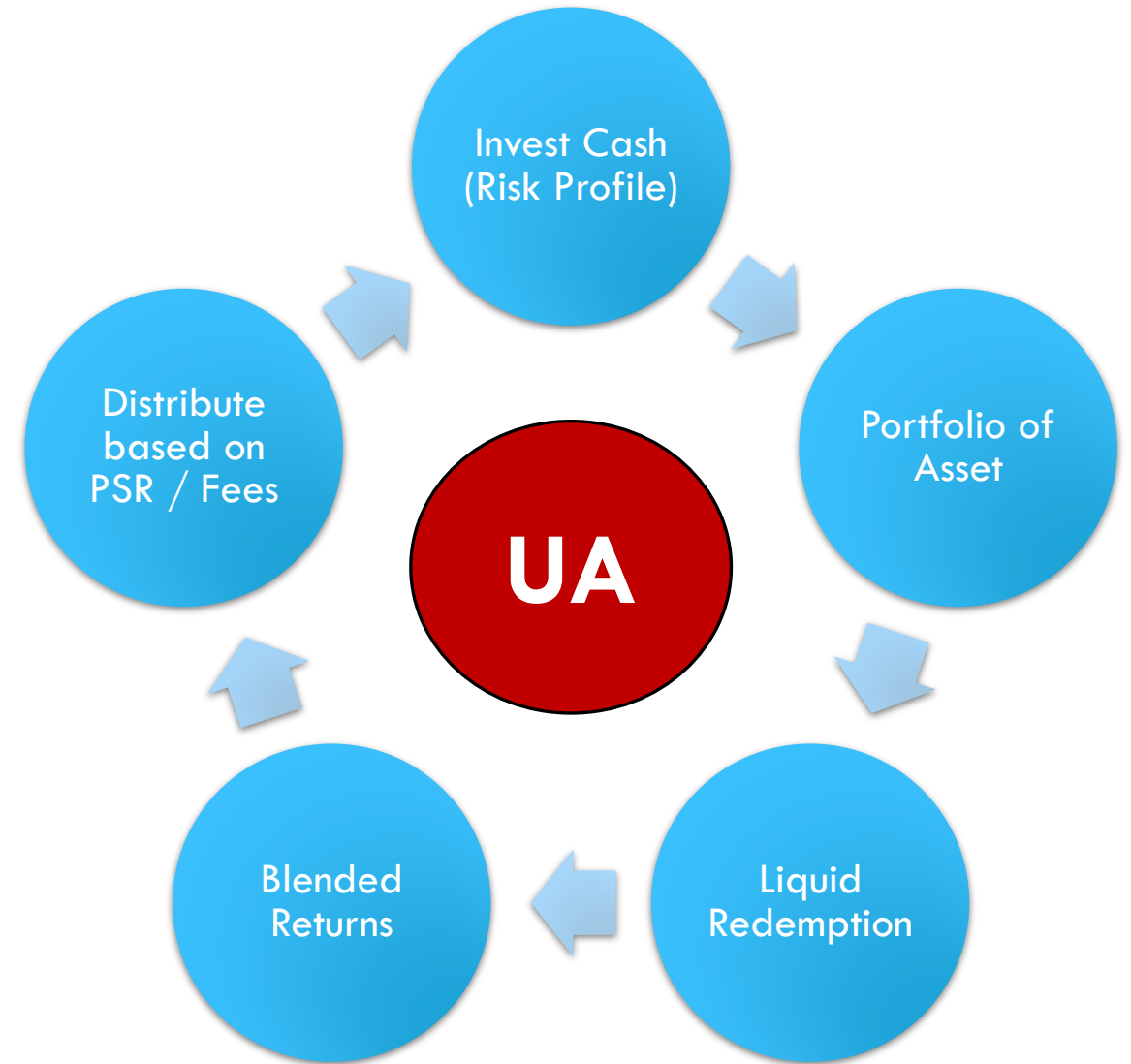


Composition can be decided by  
Board Investment Committee (BIC)

1. Investment Account where activities are based on a portfolio
2. May be segregated into different risk profiles (low/medium/high)
3. Investors enter based on risk profile of pool (suitability assessment required)
4. High Liquidity - Investors easily enter & exit portfolio with minimal / no penalty on redemption. Requires cash buffer/reserves.
5. Returns are based on portfolio performance
6. Profit Sharing Ratio may be changed at each maturity (mutual consent)
7. Tenures of investment varies / flexible / no maturity

# UA PROCESS FLOW

1. Customer has Cash to Invest based on risk profile. Customer given Product Disclosure Sheets and conducts Suitability Assessment
2. Investment into Portfolio is made. Tenure flexible
3. Investor free to redeem or further invest or re-invest into Portfolio
4. On specific valuation period, a blended return on Portfolio is realised. Losses, if any, is also determined
5. If any Profit, it is distributed based on Profit Sharing Ratio or Agreed Fees
6. Investment Asset can be divested or continued for another period





# SOURCES & APPLICATION OF UA

“Unrestricted investment account or **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.

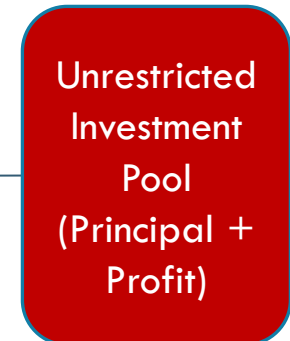
## invest

INVESTORS (PSR)
CURRENT ACC (10:90)
SAVINGS ACC (30:70)
TERM DEPOSITS (80:20)
INTERBANK INV (25:75)



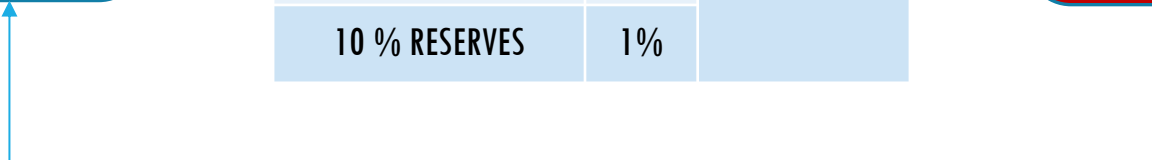
## divest / reinvest

ASSET PORTFOLIO	ROR	BLENDED
40% MORTGAGE	3%	.40%
30% PERSONAL FIN	8%	
10% VEHICLE FIN	5%	
10% INTERBANK PLC	2%	
10 % RESERVES	1%	



## distribute

INVESTORS (ROR)
CURRENT ACC (0.44%)
SAVINGS ACC (1.32%)
TERM DEPOSITS (3.52%)
INTERBANK INV (1.10%)
ENTREPRENEUR (FEE)
BANK (3.01%)



# NOTICE OF TRANSITION TO CUSTOMERS : CONSENT & OPT-IN INTO IA

What is IFSA 2013?

**It's The Way Forward Towards  
More Responsible and  
Progressive Islamic Banking.**

“ The timely introduction of the Islamic Financial Services Act 2013 (IFSA 2013) fortifies our nation's dynamic leadership in Islamic finance, as it advances the development of a robust end-to-end Shariah-compliant regulatory framework that will serve as a model for other countries. ”

Under IFSA 2013, all existing Islamic deposit products that apply the Shariah contracts of Mudarabah, Musharakah and Wakalah will be classified as investment product effective from 30 June 2015.

This transition exercise is currently being carried out by Bank Islam. To the best of its ability, the Bank works to ensure that our customers can now convert their accounts at no additional costs,

and with minimal inconvenience and change in benefits. Where customers do not wish for their accounts to be converted, customers need to note the changes in contractual obligations and give their signed consent.

This guide has been prepared to help you understand the conversions that have been made to affected products under the Bank's portfolio.

#### NOTE:

If you are a business customer holding a Mudarabah and/or Wakalah based account, you are required to choose whether to place your fund in investment account or deposit account. If necessary, you will have to provide a new Board Resolution authorising the placement in the Investment Account.

If you are a retail customer holding a Mudarabah savings account, your account has been successfully converted to Wadiah Savings Account-i without any change to the account number.

Holders of non-individual accounts (religious bodies, schools, associations, etc) are required to provide extract of the decision at their respective meetings to migrate to investment account.

# DISCLOSURE : INVESTMENT INFORMATION

- i. Product Disclosure Sheets (PDS) have become a key requirement for offering Investment Accounts
- ii. Just like the general Investment instruments in the market (Unit Trusts / Shares / Structured Investment / Sukuk), sufficient information **MUST** be provided to investors to allow them to make **INFORMED** decisions on the investments
- iii. The value of investment is based on the trading value / market value / share value / redemption value, which is based on performance and market demand
- iv. Information on the investment must be captured and provided to potential investors including expected performance during best market and worst market conditions.
- v. These information must be sufficiently conveyed in the PDS and any other information document (such as market outlook report, prospectus, term sheets, analysis and annual statements).

# PRODUCT DISCLOSURE SHEET (PDS)

As Investment Accounts are intended to behave as close as possible to "Investments", the Product Disclosure Sheet (PDS) has become a key component for the product.

PDS must clearly highlight:

1. Description of the investment
2. Type of Asset from deployment of the Investment
3. Historical Performance of the Investment
4. Forecast of the Investment performance
5. Other material information / risks on the Investment

## MUDARABAH INVESTMENT ACCOUNT - TERM FUND-i

### Fund Performance Report for the Quarter Ended 31 March 2017

Dear Valued Investment Account Holder (IAH),

We are pleased to present the following fund performance report for the quarter-ended 31 March 2017.

#### FUND INFORMATION

##### Type of Product

- This is an unrestricted investment account known as Mudarabah Investment Account under the Term Fund-i, where the customers provide the Bank with the mandate to invest in the Bank's selected portfolio of Shariah compliant assets, which may provide customers with potentially higher returns.

##### Applicable Product

- General Investment Account-i (GIA-i)

##### Type of Investors

- Individual
- Small & Medium Enterprises (SME)
- Business Banking (BB)
- Global Banking (GB)

##### Fund Inception

- 16 July 2015

##### Fund Investment Objectives

- The Fund's objective is to preserve capital while providing stable returns through low to moderate risk investments

##### Fund Investment Strategy

- The Fund will be invested in a blended portfolio of the Bank's assets
- This is a low to moderate risk investment to achieve capital preservation and steady returns

##### Profit Distribution Frequency

- Monthly

##### Valuation

- The Bank will perform valuation of the underlying assets of the Fund in accordance with the Malaysian Financial Reporting Standards ("MFRS") which will be carried out on a monthly basis

##### Other Information

- For fees, charges and other details on the product, please refer to [www.maybank2u.com.my](http://www.maybank2u.com.my)

#### FUND PERFORMANCE

##### Asset Allocation

The fund is invested in a portfolio of the Bank's retail and non-retail assets<sup>1</sup> and the asset allocation for the past two quarters is as per the table below. The asset allocation is within the stated investment objective and strategy.

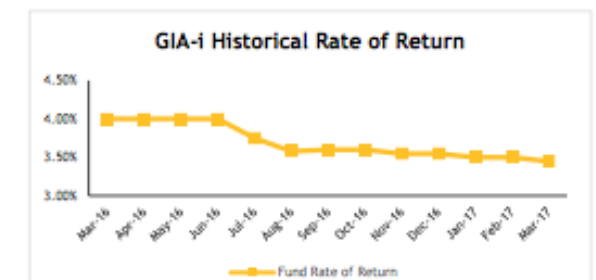
Type of Assets	GIA-i		GIA-i Campaign	
	Dec 2016	Mar 2017	Dec 2016	Mar 2017
Retail	88%	88%	89%	90%
Financing Non-Retail	12%	12%	11%	10%
Financing Marketable Securities	-	-	-	-
	100%	100%	100%	100%

Notes:

<sup>1</sup>Retail assets consist of Unit Trust, Automobile, Home, Personal and Credit Card Financing while non-retail assets consists of SME Term and BB Term Financing

##### Rate of Return of GIA-i

Based on the performance of the underlying assets, the rate of return to customers recorded an average of 3.81% p.a. since the Fund's inception and an average of 3.48% p.a. for 1Q 2017.

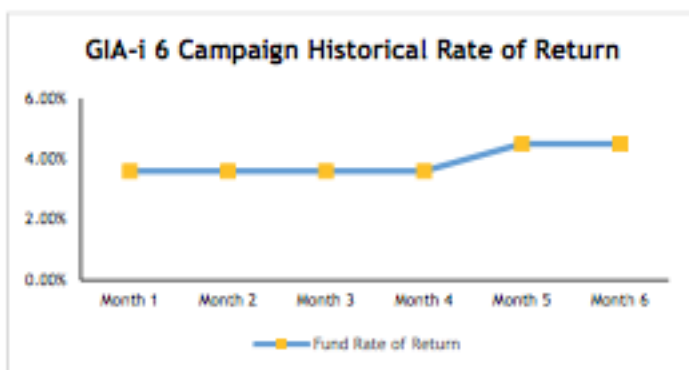


Investor must be given information to make the right decision as “Investments” are not principal-protected

Month	1	2	3	4	5	6
Fund Rate of Return to IAH	3.60% p.a.	3.60% p.a.	3.60% p.a.	3.60% p.a.	3.60% p.a.	3.60% p.a.
PSR	70:30	70:30	70:30	70:30	70:30	70:30

#### Rate of Return of GIA-i 6-month Campaign (“GIA-i 6”)

This section is applicable for customers who have made placement under the GIA-i 6 campaign from 16<sup>th</sup> October 2016 until 31st March 2017.



Month	1	2	3	4	5	6
Fund Rate of Return to IAH	3.60% p.a.	3.60% p.a.	3.60% p.a.	3.60% p.a.	4.50% p.a.	4.50% p.a.
PSR	70:30	70:30	70:30	70:30	80:20	80:20

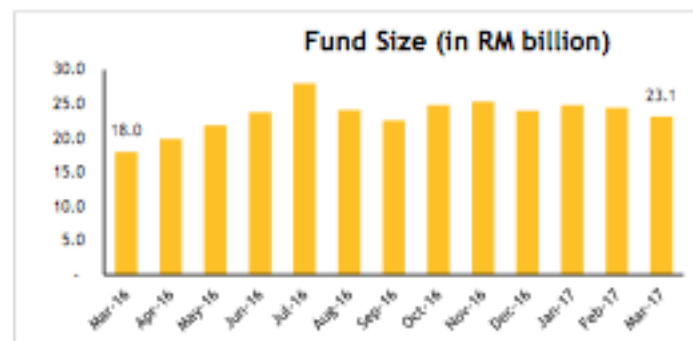
#### Notes:

- The fund rate of return represents the net rate of return to the IAH and is computed based on the following formula:  
Rate of Return = (Total Income - Impairment Allowances) \* PSR
- Past performance is not reflective of future performance

## FUND PERFORMANCE

### Fund Size and Growth

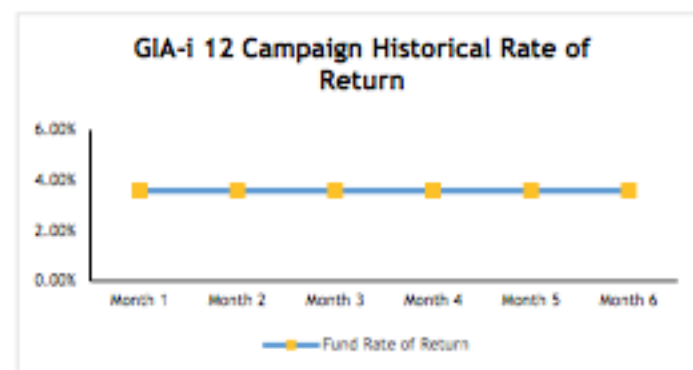
As at March 2017, the Term Fund-i balance was recorded at RM 23 billion, 29% year-on-year growth from RM 18 billion in March 2016.



## FUND PERFORMANCE

### Rate of Return of GIA-i 12-month Campaign (“GIA-i 12”)

This section is applicable for customers who have made placement under the GIA-i 12 campaign from 16<sup>th</sup> October 2016 until 31st March 2017.



Month	1	2	3	4	5	6
Fund Rate of Return to IAH	3.60% p.a.	3.60% p.a.	3.60% p.a.	3.60% p.a.	3.60% p.a.	3.60% p.a.
PSR	70:30	70:30	70:30	70:30	70:30	70:30

Period	16 Jan 2017 to 15 Feb 2017	16 Feb 2017 to 15 Mar 2017	16 Mar 2017 to 15 Apr 2017
Fund Rate of Return to IAH	3.50% p.a.	3.50% p.a.	3.45% p.a.
Profit Sharing Ratio (PSR) (IAH: Bank)	70:30	70:30	70:30

#### Notes:

- The fund rate of return represents the net rate of return to the IAH and is computed based on the following formula:  
Rate of Return = (Total Income - Impairment Allowances) \* PSR
- Past performance is not reflective of future performance

## MARKET OUTLOOK

Malaysia's real GDP growth is expected to see a slight expansion in growth to 4.4% in 2017 (2016: +4.2%) underpinned by sustained consumer spending, stronger growth in public and private investments and a rebound in Government consumption expenditure. Growth in public and private investments will be driven by the rollout of existing and new major infrastructure and investment projects. The Overnight Policy Rate (OPR) is also expected to remain unchanged at 3.00% in 2017 aimed at supporting domestic demand. Loans and financing growth for Malaysia has tapered further to 5% - 5.5% in 2016 from 7% - 8% in 2015, on the back of easing household loans growth. The Bank's financing growth is expected to be in line with Islamic industry financing.

Source: Maybank Islamic Berhad Financial Statements for the quarter ended 31 Mar 2017



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# RESTRICTED INVESTMENT ACCOUNT (RA)

Match funding a specific project  
or financing requirements

# WHAT IS RESTRICTED INVESTMENT ACCOUNT (RA)?

1. To fund specific project, asset or portfolio
2. Funded by 3<sup>rd</sup> party (usually single party)
3. Excludes the Capital Cost / Charge of the Islamic Bank and from Collective Allowance computation
4. Usually used to fund above existing Single Customer Exposure Limit (SCEL)
5. No Liquidity reserve requirement as it is match funded
6. Risk of Non-Performing Financing (NPF) passed to Investors
7. Usually classified as off-balance sheet items

## Restricted Profit Sharing Investment Accounts ("RPSIA")

RPSIA placements are used to fund specific financing and are based on the principle of Mudharabah whereby profits will be shared between the Bank as Mudharib and the investors as Rabbul Mal whereas losses shall be borne solely by the investors. These placements and financing are recorded in the Bank's financial statement as its liabilities and assets in accordance with MFRS 139. Any impairment allowances required on the financing are not recognised in the profit or loss of the Bank but charged to and borne by the investors.

All assets financed by the RPSIA are excluded from the computation of Collective Allowance and Capital ratio as disclosed in Notes 8 and 39 respectively.



# RESTRICTED IA



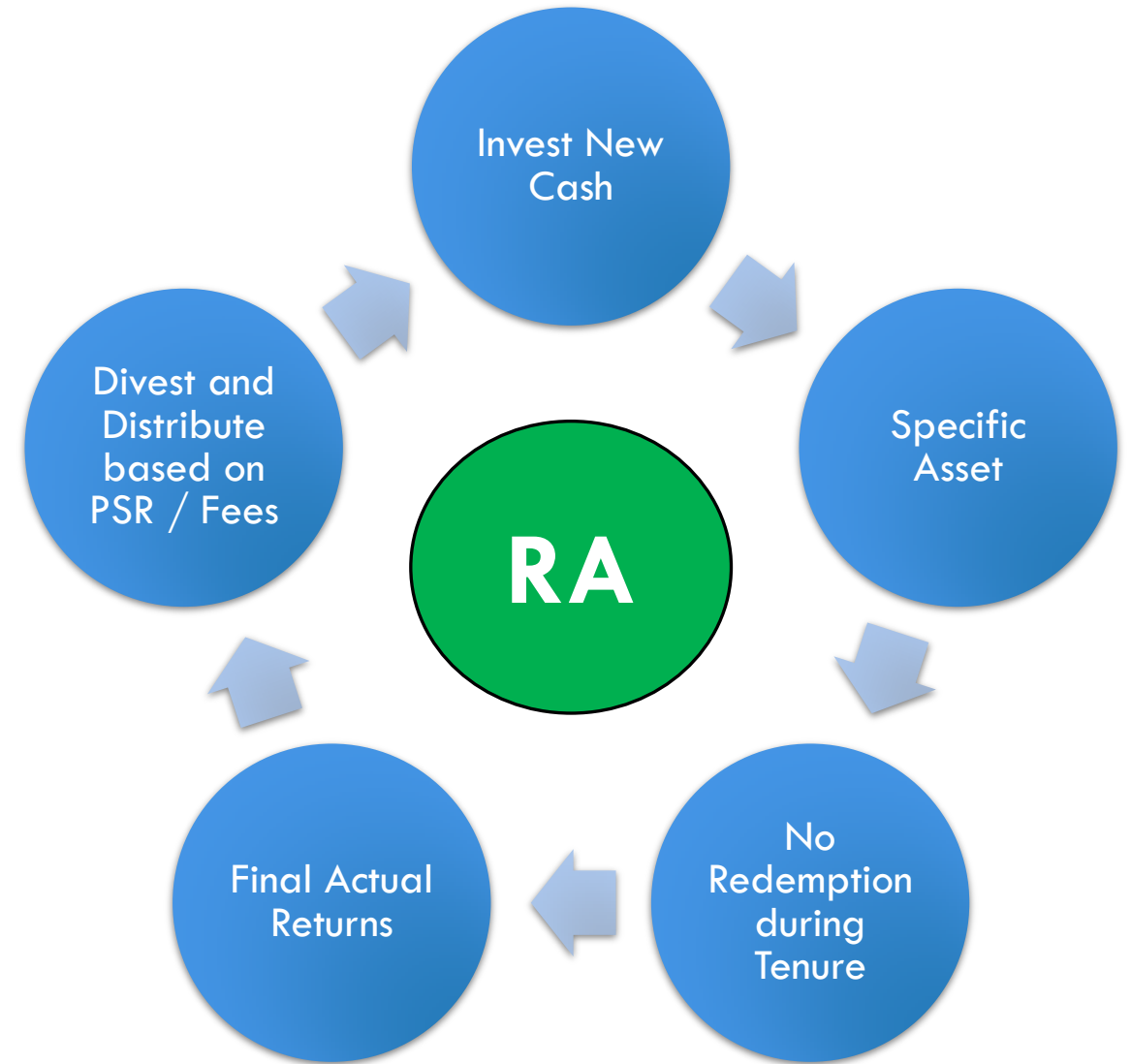
Composition can be decided by  
Credit Committee with BIC oversight

1. Investment Account where activities are based on a specific requirements
2. Risk profile of investor matched to Asset risks. No suitability assessment required
3. Illiquid Investment - Investors enter at start & exit portfolio at maturity with steep penalty on early redemption. Do not require cash buffer/reserves.
4. Returns are based on Asset performance
5. Profit Sharing Ratio must be mutually agreed at start of investment.
6. Tenures of investment fixed (with maturity)
7. The Asset is deemed to be directly financed by the Investor (risk transfer). No specific disclosure requirements



# RA PROCESS FLOW

1. Customer has Cash to Invest based on Specific risk profile. Customer assesses risk.
2. Investment into Asset is made. Tenure fixed
3. No redemption allowed during tenure. If redemption is made, penalty is imposed (unless replacement investor is found)
4. On maturity date, the final return on Asset is realised. Losses, if any, is also determined
5. The Specific Asset is divested / terminated
6. If any Profit, it is distributed based on Profit Sharing Ratio or Agreed Fees

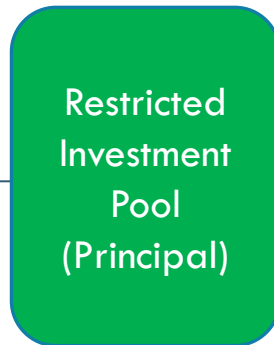


# SOURCES & APPLICATION OF RA

“**Restricted investment account or 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.

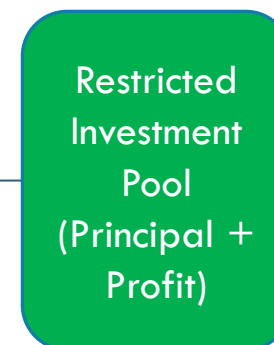
invest

INVESTOR (PSR)
PROFIT SHARING INVESTMENT ACCOUNT - PSIA (90:10)



divest

ASSET PORTFOLIO	ROR	BLENDED
95% ASSET FINANCING	5%	4.85%
5% INTERBANK PLC	2%	



distribute

INVESTOR (ROR)
PROFIT SHARING INVESTMENT ACCOUNT - PSIA (4.37%)
ENTREPRENEUR (FEE)
BANK (0.49%)



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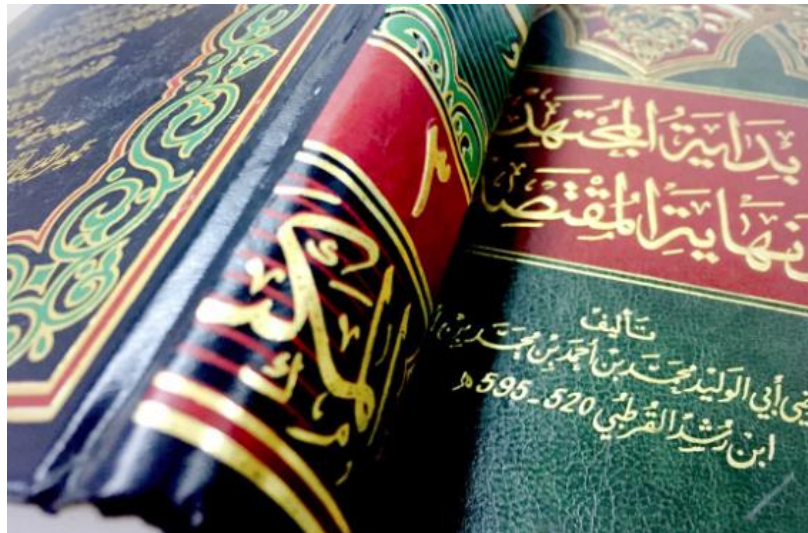
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# CHARACTERISTICS & FEATURES

Comparison between  
Mudarabah & Wakalah Fi  
Istihmar

# DEFINITIONS

The definition of *Mudarabah* and *Wakalah Fi Isthihmar* has been streamlined by Shariah scholars to be consistent with the classical definition of the 2 contracts.



Mudarabah	Wakalah Fi Isthihmar
Profit Sharing Entrepreneurship / Investment	Agency for the purpose of investment
Is a contract between two parties, i.e. the Investor (owner of the capital) and the Manager (Mudarib) whom will use capital in income-generating activities	Is a contract between two parties, i.e. the Investor (owner of the capital) and the Agent whom will invest capital on behalf of the principal
No capital guarantee — loss will be borne by Investor	No capital guarantee — loss will be borne by Investor
The Bank, as the fund manager, is responsible to provide information to Investor on the profit loss sharing mechanism, as well as investment activities.	The Bank acts in two capacities, i.e. as an agent in accepting deposits from the investor and as an investment manager in carrying out agreed Shariah compliant investment activities.

# TYPES

The types of Mudarabah and Wakalah (both Agency & Agency for the purpose of Investments) was also clearly defined in the Standards.



Mudarabah	Wakalah Fi Isthihmar
<p>Mudarabah (Profit Sharing Entrepreneurship) refers to the act of investing as fund managers for the Investor, according to any general / specific investment mandate</p>	<p>Wakalah (Agency) is for providing a service for a fee</p> <p>Wakalah Fi Isthihmar (Agency for Investment) refers to the act of investing funds on behalf of the Investor, according to any general / specific investment mandate</p>
<p>Unrestricted Mudarabah (Mudarabah Mutlaqah) refers to general investment, where tenure and usage of funds are not fixed</p>	<p>Unrestricted Wakalah refers to an arrangement using general mandate, with unknown investment period.</p>
<p>Restricted Mudarabah (Mudarabah Muqayyadah) refers to specific investment, where amount, tenure and usage of funds are fixed</p>	<p>Restricted Wakalah refer to arrangement using specific mandate, matched amount and fixed investment maturity period</p>

# CONTRACTUAL RELATIONSHIP

The Standards issued also clearly outlined the roles and responsibilities of the parties in IA contracts.



Mudarabah	Wakalah Fi Isthihmar
Bank As Manager (Entrepreneur), Customer as Fund Provider	Bank As Agent, Customer as Investor
Agreement on the investment period, investment currency, and automatic renewal of investment term unless non-renewal is requested. The customer may cancel the Mudarabah contract prior to the expiry of the agreed period, usually at a penalty.	Agreement on the investment period, investment currency, and automatic renewal of investment term unless non-renewal is requested. The customer is not entitled to cancel the Wakalah contract prior to the expiry of the agreed period.
The Bank as Manager cannot guarantee the profit as it is based on real performance	The Bank as an Investment Agent cannot guarantee the profit expected from the investment.
Early exit may result in valuation losses, borne by Fund Provider	Early exit may result in valuation losses, borne by Investor (after Agency Fee deduction)

# DEPLOYMENT & PROFIT

The usage of the funds with intention to generate profit are captured in the Standards. There is strong emphasis on the treatment and distribution of profit in the Rate of Return Framework and Investment Account Framework, with the warning disclaimers requirements, performance report and distribution tables.

Illustration of warning statement

**WARNING**  
 THE RETURNS ON THIS INVESTMENT ACCOUNT WILL BE AFFECTED BY THE PERFORMANCE OF THE UNDERLYING ASSETS. THE PRINCIPAL AND RETURNS ARE NOT GUARANTEED AND CUSTOMER RISKS EARNING NO RETURNS AT ALL. IF THE INVESTMENT IS REDEEMED EARLY, CUSTOMER MAY SUFFER LOSSES IN PART OR THE ENTIRE PRINCIPAL SUM INVESTED.  
 [WHERE THE INVESTMENT ACCOUNT IS NOT PROTECTED BY PIDM TO ADD: "THIS INVESTMENT ACCOUNT IS NOT PROTECTED BY PERBADANAN INSURANS DEPOSIT MALAYSIA".]

Mudarabah	Wakalah Fi Isthihmar
Contract between the customer as a Capital Provider (Rab Ul Mal) and the bank as an Entrepreneur (Mudarib). The bank will act as fund manager to invest or fund an assets / projects.	Contract between the customer as an investor (muwakkil) and the bank as an agent (wakkil) for the investor. The bank will act as agent to invest funds into various assets /projects.
Capital is for investment / financing purposes, based on investor mandate (if any)	Capital is for investment purposes, based on investor mandate (if any)
Profit distribution based on pre-agreed Profit Sharing Ratio	Profit distribution based on pre-agreed Agent fee, and the residual profit is paid fully to the Investor
The bank as an Entrepreneur is entitled to receive a share of the profit for managing the funds	The bank as an agent is entitled to receive a fee for its services
Bank shall not top-up on returns if profit is below expectations	Bank shall not top-up on returns if profit is below expectations

# LOSSES ON INVESTMENT

The "potential losses" to the investors capital on maturity / valuation date, remains one of the key information that needs to be acknowledged by Investors upon entering into the investment. The Suitability Assessment process is key in highlighting the potential risk to Investors' capital.

ACKNOWLEDGEMENT	
Remarks	IAH's signature
The IFI has explained and I have understood the feature and risks of the product.	
All information disclosed is true, complete and accurate.	
I decline to provide certain information required for product suitability assessment and understand that this may adversely affect my suitability assessment.	(* if applicable)
I acknowledge receipt of a copy of product disclosure sheet and the relevant disclosure document which have been given to me.	
I have decided to purchase another investment account product that is not recommended by the IFI.	(* if applicable)
<div style="display: flex; justify-content: space-between;"> <span>IAH's signature</span> <span>IFI's representative's signature</span> </div>	

Mudarabah	Wakalah Fi Isthihmar
Customer, as Capital Provider, bears all the losses on capital, upon valuation of Assets or Investment maturity	Customer, as Capital Provider, bears all the losses on capital, upon valuation of Assets or Investment maturity
Bank, as Entrepreneur, losses time and effort and do not incur "share of loss"	Bank, as Investment Agent, losses time and effort and do not incur "share of loss"
As there is no profit, there is no Profit Share of any returns	As there is no profit, Bank may waive its rights to the Agent Fees
As the Bank does not guarantee the Capital, the Bank shall not "top-up" the shortfall	As the Bank does not guarantee the Capital, the Bank shall not "top-up" the shortfall
Bank, as Entrepreneur, may be required to compensate loss of capital if proven negligent (Taqsir)	Bank, as Investment Agent, may be required to compensate loss of capital if proven negligent (Taqsir) or acting outside given mandate





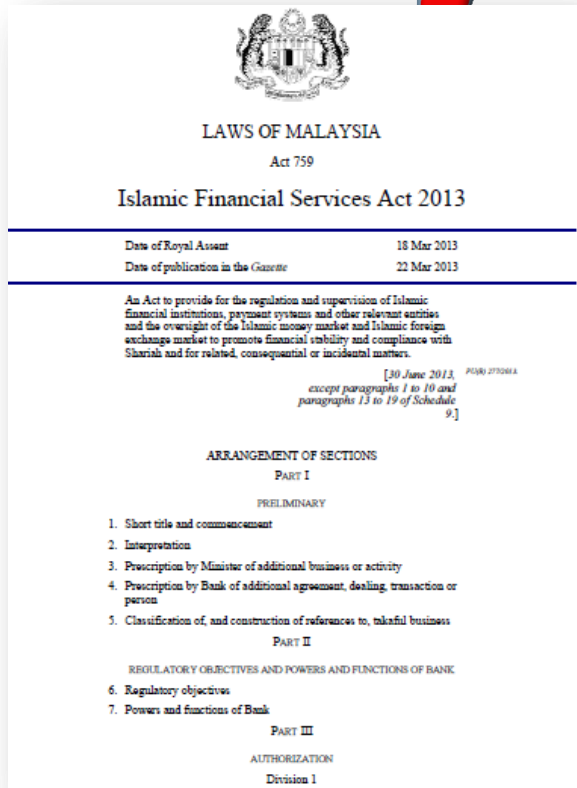
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# INVESTMENT ACCOUNT FRAMEWORK

Requirements to comply with the  
Investment Account Framework  
and the relevant Standards

# BNM'S COMPLIANCE MAP (2014)



Investment

Deposits



BANK NEGARA MALAYSIA  
CENTRAL BANK OF MALAYSIA

Investment Account



BANK NEGARA MALAYSIA  
CENTRAL BANK OF MALAYSIA

Rate of Return



BANK NEGARA MALAYSIA  
CENTRAL BANK OF MALAYSIA

Liquidity Coverage Ratio  
Concept Paper



BANK NEGARA MALAYSIA  
CENTRAL BANK OF MALAYSIA

Concept Paper  
Shariah Requirements,  
Optional Practices and  
Operational Requirements of *Mudharabah*



BANK NEGARA MALAYSIA  
CENTRAL BANK OF MALAYSIA

*Wadi'ah*  
(Shariah Requirements and Optional Practices)  
Exposure Draft

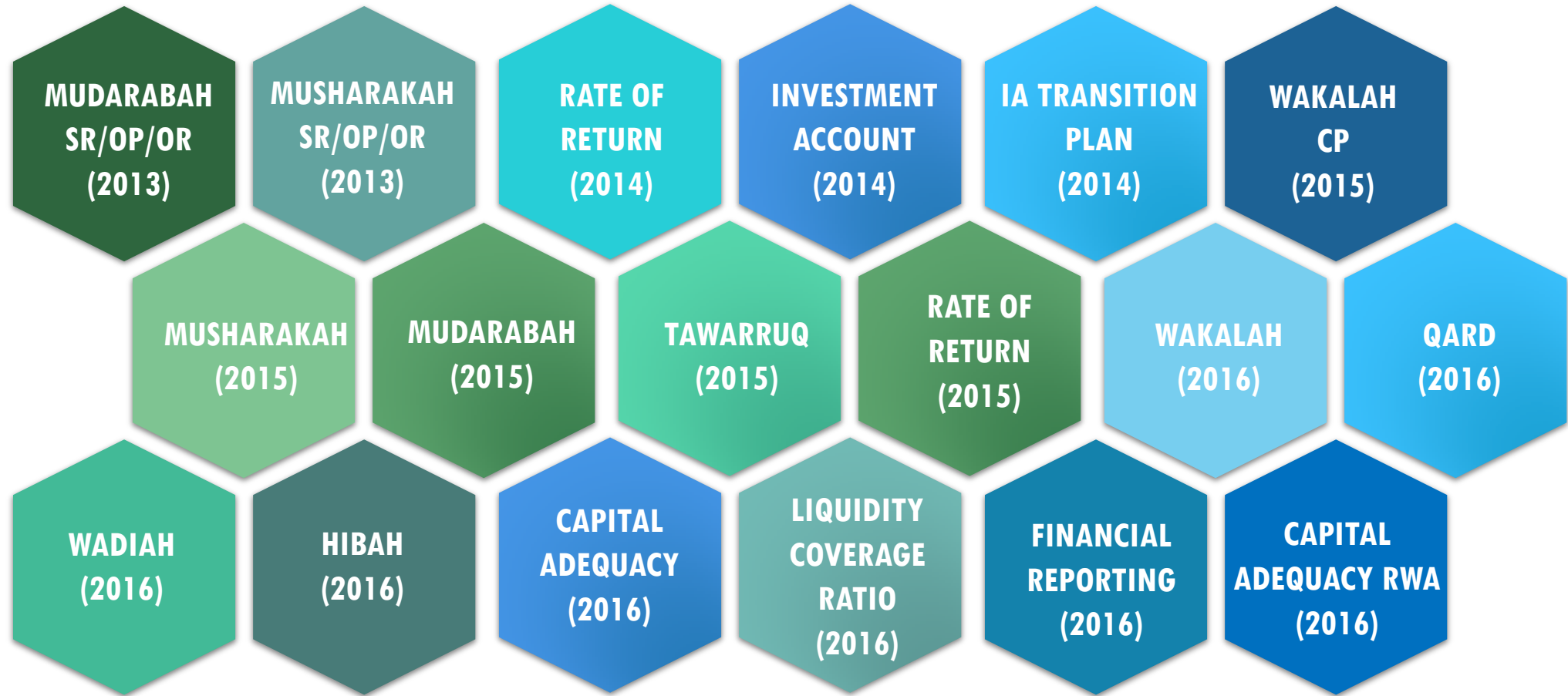


BANK NEGARA MALAYSIA  
CENTRAL BANK OF MALAYSIA

*HIBAH*  
(Shariah Requirements and Optional Practices)  
Exposure Draft

# BNM'S FULL REGULATIONS FOR DEPOSITS

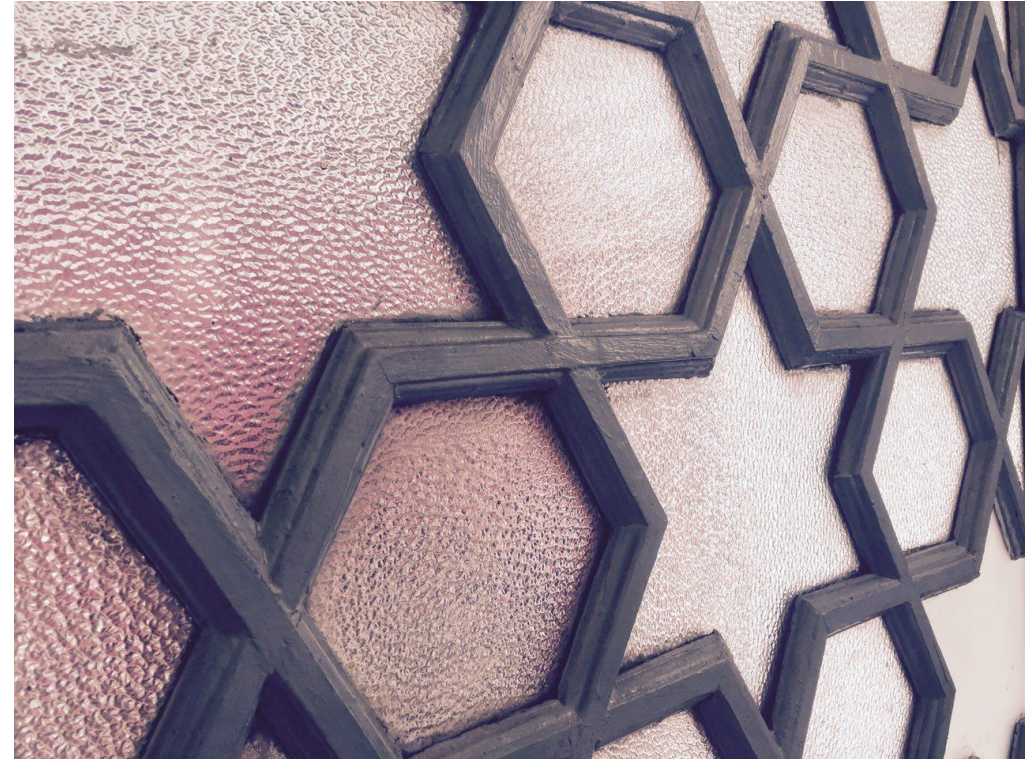
To comply with BNM guidelines on Deposits, Banks are required to consider all the other relevant guidelines issued across the years as it is inter-related





# IA REQUIREMENTS

1. MANAGING THE POOL BASED ON USAGE
2. SEPARATE POOL MANAGEMENT
3. PROPORTIONATE MANAGEMENT OF TAGGED ASSETS
4. LIQUIDITY BY FUNDS BASIS
5. BALANCED LIQUIDITY
6. REAL PERFORMANCE
7. LOOK THROUGH APPROACH
8. ON BALANCE SHEET / OFF BALANCE SHEET
9. IA REPORTING



# MANAGING THE POOLS BASED ON USAGE

Under the Investment Account Guidelines, each Investment Account type must be managed via a specific pool of funds.

For example, the Current Account under IA may be managed separately from Savings Account under IA, where the assets tagged to the pool is also different (or proportionate).

There must be a separation between pools and the tagged assets must be very transparent to the customer (as Investors).



## Differences between RIA & URIA

### Restricted Investment Account (RIA)

- Use of funds limited to specific restrictions/ conditions set by IAH e.g. purpose, asset classes & industry.
- Underlying assets are potentially specific e.g. high-risk return & illiquid investments
- Strict redemption conditions are imposed to effectively mitigate liquidity risk to IFI
  - Redemption only upon maturity of assets
  - Early redemption subject to replacement of funds from other IAH or disposal of asset
  - Set clear expectations on rights & responsibilities in operational issues e.g. Capital injection by current IAH if cost-override

### Unrestricted Investment Account (URIA)

- Use of funds not subject to any restrictions/ conditions set by IAH - however, still bound by investment objectives disclosed to IAH.
- Underlying assets are generic (potentially common assets in IBIs such as financing) & tradable assets.
- IBI may be exposed to liquidity risk as:
  - IBI may allow early redemption
  - Maturity mismatch – i.e. maturity of investment shorter than maturity of underlying asset

Illustration:

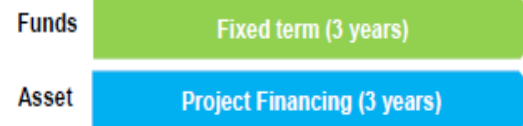
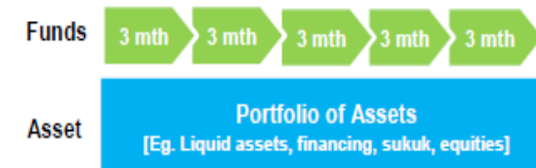


Illustration:





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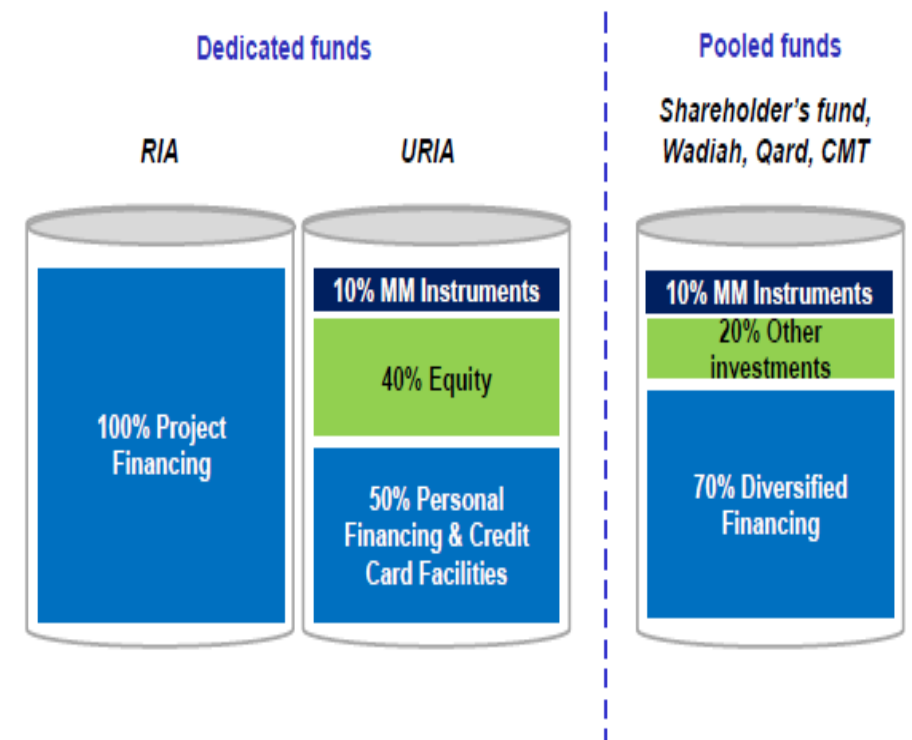
## Investment Account

# SEPARATE POOL MANAGEMENT

The Investment Account guidelines also requires the separation between:

1. An Unrestricted investment account (UA) where the Assets tagged may consist of multiple proportionate portfolio, and
2. A Restricted Investment account (RA) where the funds are only tagged to a single portfolio or Asset.

## Separate management requirement under Revised ROR



# PROPORTIONATE MANAGEMENT OF TAGGED ASSETS

Under the Investment Account guidelines, an Asset portfolio can be shared by a few pools of funds, and the pool of funds can have various components of proportionate Asset portfolio. This will help the Bank (as fund manager) to control the rate of returns.

## Proportionate tagging

9.4 Notwithstanding paragraph 9.2, the IFI may use URIA to partially fund an investment asset which requires sizeable funding. The investment asset(s) may consist of a single asset or a portfolio of assets of similar and/or different type e.g. trade financing, house financing, securities.

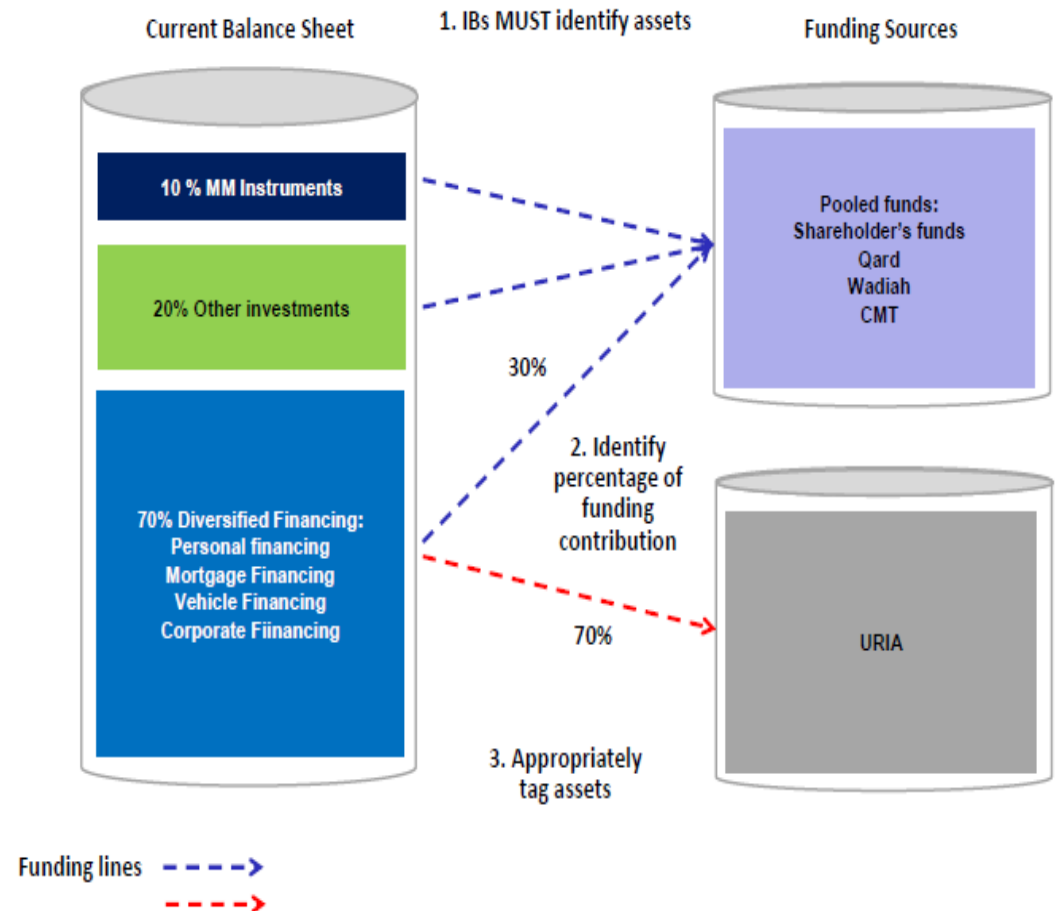
9.5 In the event that the above is adopted, the IFI shall allocate funds from a dedicated fund (except for RIA) with another dedicated fund and/or pooled fund through proportionate tagging. The proportionate tagging shall be applied to determine the allocation of income generated by the investment assets to the respective investment account funds. (Refer illustration 3)



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## Rate of Return

### Identification of investment assets







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CENTRAL BANK OF MALAYSIA

## Investment Account

# LIQUIDITY BY FUNDS BASIS

Under IA, the liquidity of the pools must be properly managed, and this can be achieved by having the pools invested into a mix of liquid and illiquid Asset.

Subsequently, the component of the pools must contain a good mix of liquid assets as governed under the Liquidity Coverage Ratio guidelines, where High Quality Liquid Assets (HQLA) must be sufficiently provided.

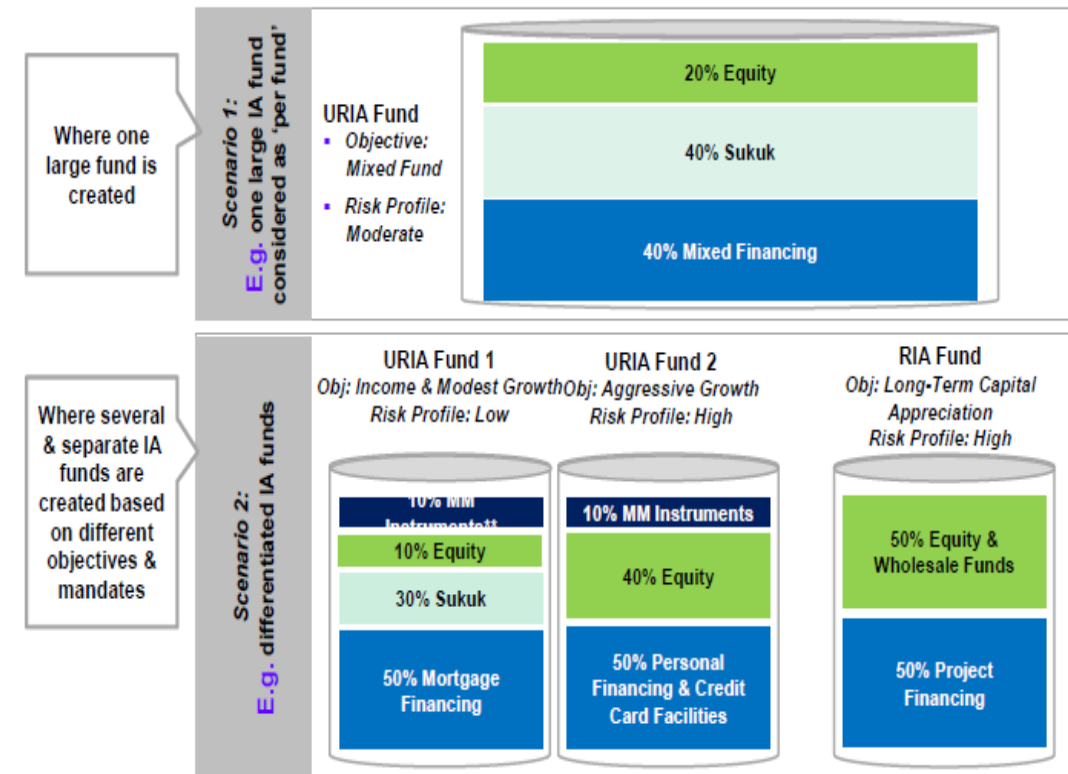
### 32. Statutory Reserve Requirement

32.1 All investment accounts are excluded from Eligible Liabilities (EL) base for the purposes of statutory reserve requirement (SRR) computation.

## Liquidity management of IA – by funds basis

Liquidity management according to respective IA Includes:

- Identification of liquidity risk & identify appropriate asset & liability management strategies
  - Monitoring & measuring of liquidity risk
  - Outlining & implementing risk mitigation strategies

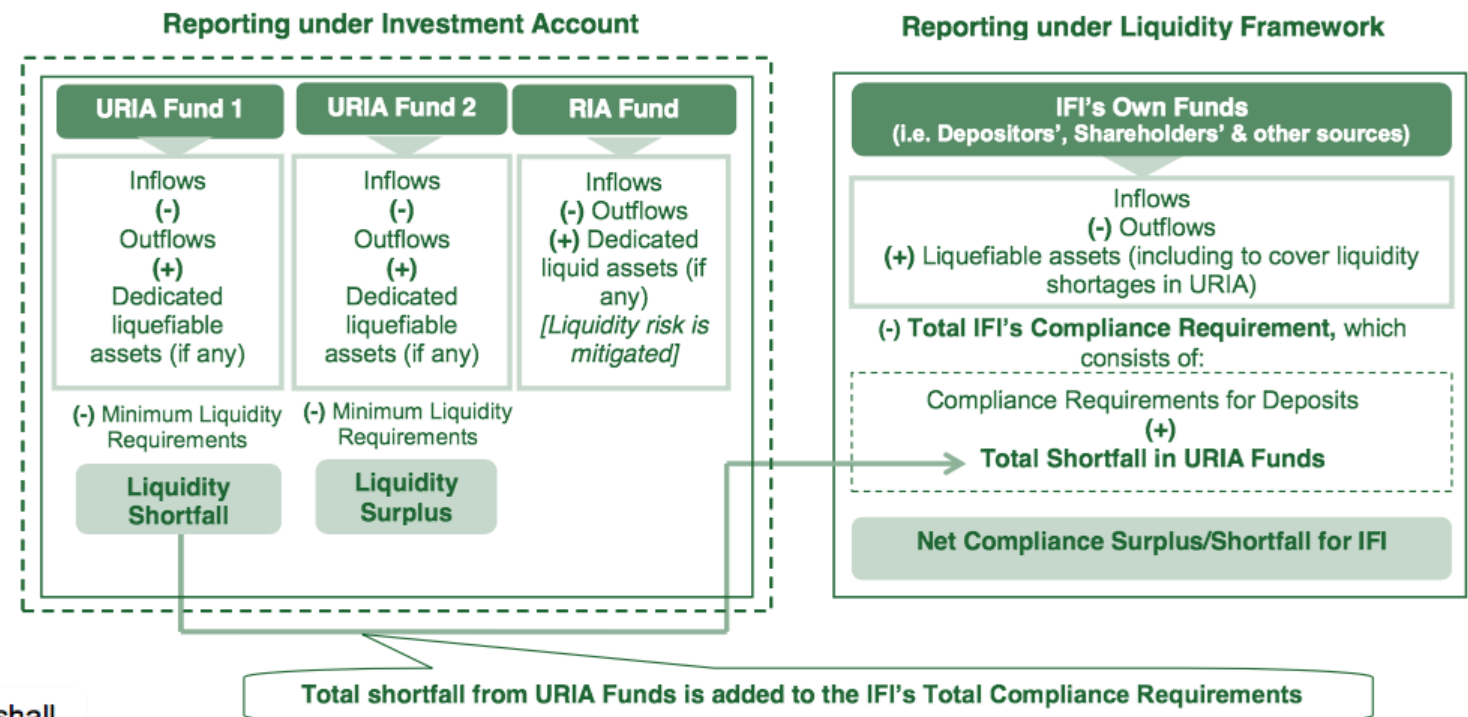




# BALANCED LIQUIDITY

Any funds shortages in the Investment Account i.e. high redemption in IA will result in shortage of liquidity (since the investment may had been deployed into medium / long term Assets).

The impact of such shortages must be accounted for in the overall liquidity of the Bank and part of the “Net Compliance Surplus/Shortfall” calculations under the Liquidity Framework



- (d) minimum liquidity requirements applied on per fund basis shall be 3% and 5%<sup>30</sup> of that particular investment account fund's prevailing Net Asset Value for 1 week and 1 month buckets

# REAL PERFORMANCE

Under Investment Accounts:

1. Principal is not protected
2. Profit is not guaranteed and is based on ACTUAL performance

## WHAT DOES THIS MEAN?

It means Banks no longer can employ the following Displace Commercial Risk (DCR) techniques to boost returns on the profit:

- Gift (Hibah) from Shareholders Funds
- Waiver of Bank's profit share / earned fee
- Restricted use of Profit Equalisation Reserves (PER)



**S** 13.5 The IFI must not implement profit smoothing practices or displaced commercial risk (DCR)<sup>1</sup> techniques.

<sup>1</sup> Refers to the risk arising from the assets managed on behalf of the IAH which maybe borne by the IFI's own capital, when the IFI foregoes part or all of its share of profits on the IAH funds, and/or make transfer to the IAH out of the shareholders' fund as a result of commercial and/or supervisory concerns in order to increase the return to the IAH. The profit smoothing techniques are described in GN-3: Guidance Note on the Practice of Smoothing the Profits Payout to Investment Account Holders issued by the Islamic Financial Services Board on December 2010.

# LOOK THROUGH APPROACH

Investment Account Holders, in theory, must be considered as owners of the Assets, as the risk on principal is held by the Investment Account holders.

**This is most relevant for Restricted Investment Account holders.**

In such cases, the “Look Through Approach” is adopted where the investors are treated as if the Assets are DIRECTLY held by the investors. This means, valuation and capital risks are directly held by the investors.

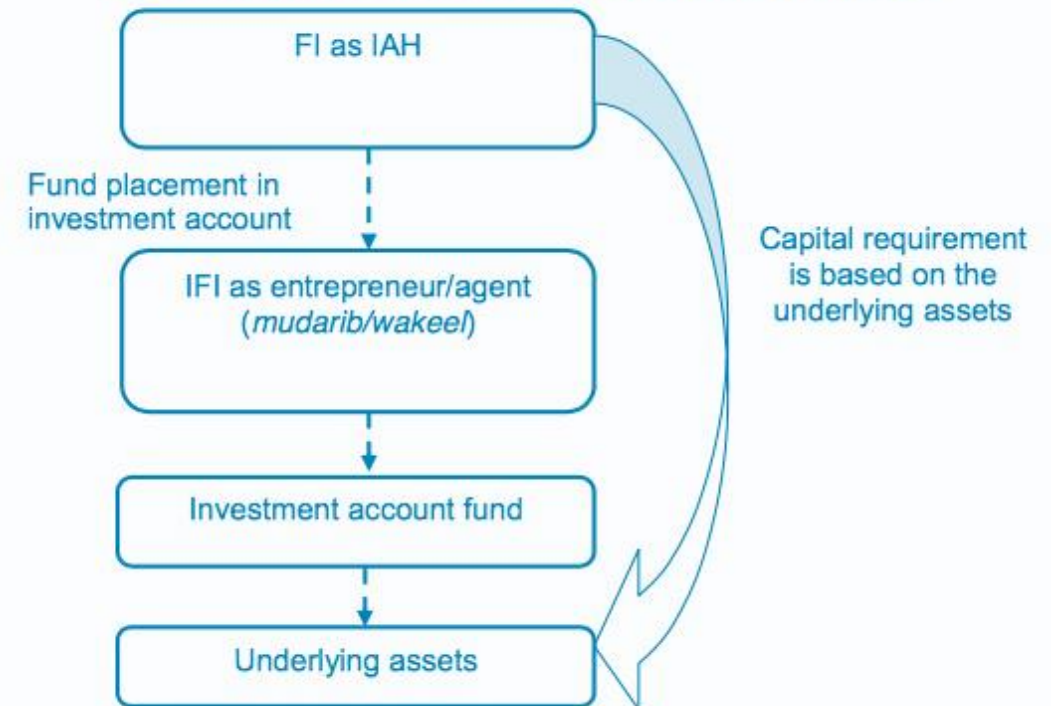


BANK NEGARA MALAYSIA  
CENTRAL BANK OF MALAYSIA

**Investment Account**

## Appendix 9

## Look-through Approach (LTA) for Capital Adequacy



# ON BALANCE SHEET / OFF BALANCE SHEET

## INVESTMENT ACCOUNTS OF CUSTOMERS

### (a) By type and Shariah contract

	GROUP AND BANK	
	31.12.2016 RM'000	31.12.2015 RM'000
<b>Unrestricted investment accounts</b>		
Without maturity <i>Mudharabah</i>	1,516,844	461,312
With maturity <i>Wakalah</i>	2,295,417	214,793
	<b>3,812,261</b>	<b>676,105</b>
<b>Restricted investment accounts ("RIA") managed by the Bank^</b>		
With maturity <i>Wakalah</i>	141,343	82,567

The recording of Investment Accounts in the Balance Sheet (financial statements) is not specifically mentioned in any of the issued Framework.

**BNM direction is for individual Banks to obtain independent auditor opinion on how it should be recorded based on the structure.**

In general, the opinions received are:

1. Unrestricted Investment Account = recorded as an On-Balance Sheet item in financial statements. However, there are also opinion on some of the decisions on the fund treatment qualifies it as an Off-Balance Sheet item
2. Restricted Investment Account = usually recorded as an Off-Balance Sheet item as the Asset is financed directly by the investor (and therefore carries 100% capital risks)



## Investment Account

# IA REPORTING

One of the main requirements under the Investment Account Framework is to clearly disclose the breakdown of the Investment Account. The breakdown must clearly show:

1. The sources of the Investment Account funds
2. The profit distributed (or fees earned by Bank) from the income generated by the Assets
3. The components of the Asset portfolio where the Investment Account funds have been deployed into.

### Notes to Account

#### Amount funded by:

Unrestricted Investment Accounts (URIA)	x
Restricted Investment Accounts (RIA)	x
Shareholders' fund	x
	xxx

	Mudarabah		Wakalah	
(RM'000)	Unrestricted investment account	Restricted investment account	Unrestricted investment account	Total
As at 1 January 20XX	123,400	30,500	65,720	219,620
<i>Funding inflows/outflows</i>				
New placement during the year	33,560	9,765	28,395	71,720
Redemption during the year	(23,555)	(4,567)	(20,766)	(48,888)
Income from investment	18,021	4,863	8,884	31,768
<i>Company's share of profit</i>				
Profit distributed to mudarib	(7,779)	(999)	-	(8,778)
Wakalah fee	-	-	(1,454)	(1,454)
Wakalah performance incentive fee	-	-	(351)	(351)
As at 31 December 20XX	143,647	39,562	80,428	263,637
<i>Investment asset:</i>				
House financing	33,039	-	18,499	51,538
Hire purchase receivables	20,111	-	11,260	31,371
Trade financing	43,094	-	24,128	67,222
Other term financing	31,602	39,562	17,694	88,858
Marketable securities	15,801	-	8,847	24,648
Total investment	143,647	39,562	80,428	263,637



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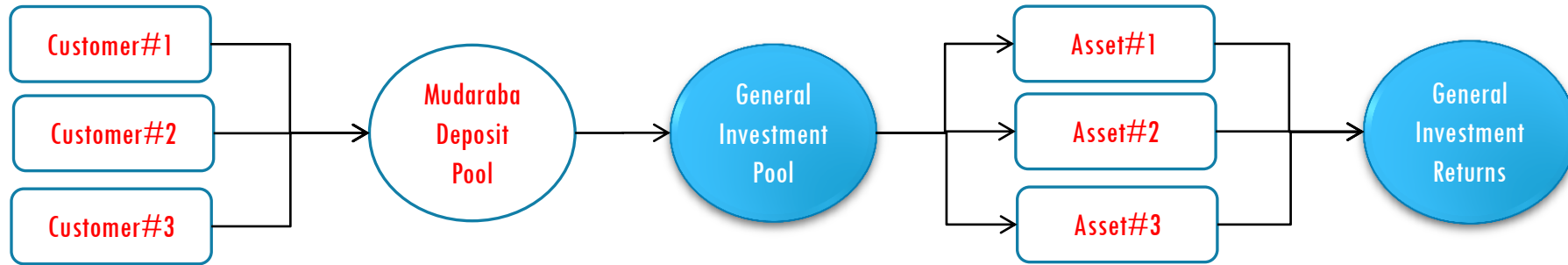
# ISSUES ON INVESTMENT ACCOUNTS

Complying with the Investment  
Account Framework and the Rate  
of Return Framework

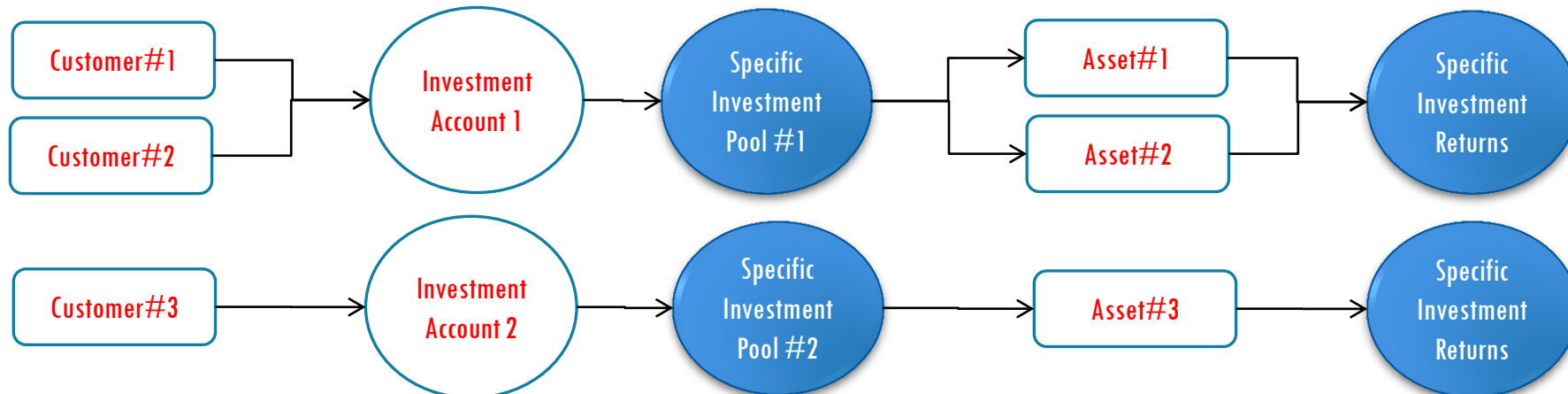
# CHANGE IN ROR FRAMEWORK

There are challenges to track the Sources and Application of Funds to suit the new ROR Framework and Asset Tagging via system

Under the PREVIOUS Mudharabah ROR Calculation, Customer deposits goes into GENERAL pool and deployed into General Investments



Customer INVESTEMENT goes into specific INVESTMENTS assets, which must be clearly disclosed to Customer (historical performance, expected returns, terms)





# INVESTMENT ACCOUNT PROFILES

There are various types of Investments that carries different risks, depending on the Investment Assets.

In general, the Bank's retail products (Current Account & Savings Account) are LOW RISK structures where Principal (Capital) are stable and non-volatile. The expectation is that the Principal amount is protected

Profiling the risks takes the product out of the traditional banking space into the “investment” category.

## Low Risks

- Short term / Stable investments
- Highly liquid, easily redeemable
- Returns are low / minimal
- Low chance of large capital gains
- Low potential for losses

## Medium Risks

- Short / medium term investments
- Fairly liquid, no/little penalty for redemption
- Returns are low, but with potential for upside based on market conditions
- Potential for capital gains and/or losses

## High Risks

- Medium / Long term investments
- Partially liquid but high penalties for redemption
- Potentially high returns, or even zero returns
- High possibility of capital gains, and capital losses

# PROFILING RISKS

The Investment Account Framework outlined the requirement to protect consumers from the risks inherent in non-principal protected Investments

Customers are required to undertake a similar process for Unit Trusts i.e. understanding the risk profile of the customers and matching it to suitable investments.

Investors are assessed to determine the risk tolerance of the investors.

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Suitability Assessment (SA) Form  
Borang Penilaian Kesesuaian (SA)  
New Mudarabah Customers  
Pelanggan Baru Mudarabah

Account No./  
Akaun No. : \_\_\_\_\_

Product Type/  
Jenis Produk : \_\_\_\_\_

Name/  
Nama : \_\_\_\_\_

**NOTE:**  
(1) THIS FORM SERVES TO GUIDE YOU IN CHOOSING THE MUDARABAH INVESTMENT ACCOUNT PRODUCT THAT SUITS YOUR INVESTMENT OBJECTIVE(S), RISK TOLERANCE, FINANCIAL PROFILE AND INVESTMENT EXPERIENCE. THE INFORMATION YOU PROVIDE WILL FORM THE BASIS OF OUR RECOMMENDATION.  
(1) BORANG INI ADALAH SEBAGAI PANDUAN UNTUK ANDA MEMILIH AKAUN PELABURAN MUDARABAH YANG SESUAI DENGAN OBJEKTIF-OBJEKTIF PELABURAN, TOLERANSI RISIKO, PROFIL KEWANGAN DAN PENGALAMAN PELABURAN ANDA. MAKLUMAT YANG ANDA BERIKAN AKAN MENJADI ASAS KEPADA CADANGAN KAMI.  
(2) THE RECOMMENDATION IS MADE BASED ON INFORMATION OBTAINED FROM THIS SUITABILITY ASSESSMENT. CUSTOMERS ARE ADVISED TO EXERCISE JUDGEMENT IN MAKING AN INFORMED DECISION IN RELATION TO THE MUDARABAH INVESTMENT ACCOUNT PRODUCT.  
(2) CADANGAN AKAN DIBUAT BERDASARKAN MAKLUMAT YANG DIPEROLEHI DARI BORANG PENILAIAN KESESUAIAN INI. PELANGGAN DINASIHATI SUPAYA MEMBUAT PERTIMBANGAN YANG SEWAJARNYA DALAM MEMBUAT KEPUTUSAN BERHUBUNG DENGAN AKAUN PELABURAN MUDARABAH.

**A. CUSTOMER NEEDS ANALYSIS/**  
**ANALISIS KEPERLUAN PELANGGAN**

1. Share with us your financial objective :/  
Sila nyatakan objektif kewangan anda :

Please Select/ Sila Pilih  
Tick ( / ) Only One ( 1 ) / Tandakan ( / ) hanya satu ( 1 )

Savings/  
Simpanan

Investment/  
Pelaburan

Retirement/  
Pensaraan

Others  
Lain-lain

(please state/ Sila nyatakan).....

2. Share with us your financial preference :/  
Sila nyatakan keutamaan pengurusan kewangan anda :

Please Select/ Sila Pilih  
Tick ( / ) Only One ( 1 ) / Tandakan ( / ) hanya satu ( 1 )

**a) Mudarabah Investment Account/**  
**Akaun Pelaburan Mudarabah**

- Capital managed by the Bank with minimal risk/  
Prinsipal diuruskan oleh Bank dengan risiko yang minimum

- Expected higher returns than deposit accounts/  
Potensi pulangan yang lebih tinggi berbanding akaun deposit

**b) Islamic Deposit Account/**  
**Akaun Deposit Islam**

- Capital protected by the Bank/  
Prinsipal dijamin oleh Bank

- Current and savings accounts: Return at the discretion of the Bank (Wadiah based - guaranteed custody) / Term deposit accounts: Return is pre-agreed (Murabahah based - cost-plus sale)/  
Akaun semasa dan akaun simpanan: Pulangan mengikut budi bicara Bank (berasaskan Wadiah - simpanan terjamin)/ Akaun deposit berjangka: Pulangan dipersetujui terlebih dahulu (berasaskan Murabahah - jualan dengan tambahan keuntungan)

# INVESTMENT RISKS

Once the risk profile of an Investment Account Holder is ascertained, a “suitable” investment will be offered to “Investors”.

The Investment Account is designed to offer low risk investment to Investors.

Completing the Suitability Assessment forms qualifies the Investors to subscribe to Investment Account Products, or Deposit Products, but it may just be a paper exercise.

<b>C. CUSTOMER ACKNOWLEDGEMENT AND DECISION ON INVESTMENT ACCOUNT/ PERAKUAN DAN KEPUTUSAN PELANGGAN KE ATAS AKAUN PELANGGAN</b>		Please Select/ Sila Pilih Tick (✓) Tandakan (✓)	
		Agree/ Setuju	Disagree/ Tidak Setuju
(1) I/We have understood the features and risks of the product/ <i>Saya/Kami telah memahami ciri-ciri dan risiko tentang produk ini</i>		<input type="checkbox"/>	<input type="checkbox"/>
(2) I/We have been advised to read Product Disclosure Sheet (PDS) and relevant documents that has been made available to me/us / <i>Saya/Kami telah dinasihati untuk membaca Helaian Pendedahan Produk dan dokumen-dokumen berkaitan yang telah disediakan kepada Saya/Kami</i>		<input type="checkbox"/>	<input type="checkbox"/>
(3) I/We acknowledge all information provided and disclosed by me/us is true, complete and accurate and understand that this may affect my/our suitability assessment/ <i>Saya/Kami mengakui yang semua maklumat yang disediakan dan didedahkan oleh Saya/Kami adalah benar, lengkap and tepat. Seterusnya Saya/Kami memahami yang maklumat tersebut akan memberi kesan kepada penilaian kesesuaian Saya/Kami.</i>		<input type="checkbox"/>	<input type="checkbox"/>

<b>D. RECOMMENDATION (TO BE COMPLETED BY THE BANK)/ CADANGAN (DISI OLEH PIHAK BANK)</b>	
(1) Based on the information provided, the Bank recommends you to open a Mudarabah Investment Account/ <i>Berdasarkan maklumat yang diberikan, pihak Bank mencadangkan pelanggan membuka Akaun Pelaburan Mudarabah</i>	<input type="checkbox"/>
(2) Based on the information provided, the Bank recommends you to open an Islamic Deposit Account/ <i>Berdasarkan maklumat yang diberikan, pihak Bank mencadangkan pelanggan membuka Akaun Deposit Islam</i>	<input type="checkbox"/>

<b>E. CUSTOMER'S INVESTMENT DECISION/ KEPUTUSAN PELABURAN PELANGGAN</b>	
Would you like to proceed with the opening of a Mudarabah Investment Account?/ <i>Adakah anda bersetuju untuk membuka Akaun Pelaburan Mudarabah?</i>	<input type="checkbox"/> Yes/Ya <input type="checkbox"/> No/Tidak

<b>SIGNATURE/ TANDATANGAN</b>  (Primary account holder/ Pemegang akaun utama)	<b>SIGNATURE OF PRIMARY APPLICANT/ TANDA TANGAN PEMOHON UTAMA</b>		
	Name/ Nama :	ID No/ No Kad Pengenalan :	Date/ Tarikh :

# TAGGING ASSETS



One of the challenges of IA is to have a system that is able to link and tag identified (allocated) Assets to the sources of funds (Investment Account). This needs accuracy & intelligence similar to fund management.

## Asset Allocation

The fund is invested in a portfolio of the Bank's retail and non-retail assets<sup>1</sup> and the asset allocation for the past two quarters is as per the table below. The asset allocation is within the stated investment objective and strategy.

Type of Assets	GIA-i		GIA-i Campaign	
	Dec 2016	Mar 2017	Dec 2016	Mar 2017
Retail Financing	88%	88%	89%	90%
Non-Retail Financing	12%	12%	11%	10%
Marketable Securities	-	-	-	-
	100%	100%	100%	100%

### Notes:

<sup>1</sup>Retail assets consist of Unit Trust, Automobile, Home, Personal and Credit Card Financing while non-retail assets consists of SME Term and BB Term Financing

## Fund Investment Objectives

- The Fund's objective is to preserve capital while providing stable returns through low to moderate risk investments

## Fund Investment Strategy

- The Fund will be invested in a blended portfolio of the Bank's assets
- This is a low to moderate risk investment to achieve capital preservation and steady returns



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# SHARIAH STANDARDS

Glimpse of the requirements  
under the Standards of the  
various Investment Account  
contracts

# RELEVANT SHARIAH-RELATED GUIDELINES

1. Investment Account
2. Rate of Return
3. Liquidity Coverage Ratio
4. Shariah Requirements, Optional Practices & Operational Requirements of Mudarabah
5. Shariah Requirements, Optional Practices & Operational Requirements of Musharakah
6. Wakalah Policy Document





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# MUDARABAH STANDARDS & OPERATIONAL REQUIREMENTS

Ensuring compliance to the basic  
nature of Mudarabah

# GUIDANCE ON MANAGING MUDARABAH

## 10. Management of *Mudarabah*

- 10.1 *Mudarib* shall have the right to manage *mudarabah* venture.
- 10.2 *Mudarib* is responsible to ensure proper management of the *mudarabah* venture and acts in the interest of the *rabbul mal*.
- 10.3 Mandate of the *mudarib* shall be provided under the terms and conditions of the contract.
- 10.4 *Mudarib* may assign *mudarabah* capital under his management to another *mudarib* in another *mudarabah* (*mudarib yudarib*) or to another manager (*wakil*) subject to the condition that the consent of *rabbul mal* is obtained.
- 10.5 *Rabbul mal* shall not involve in managing *mudarabah* venture but shall have a right of access to reasonable information regarding the *mudarabah* venture.

## 8. Definition and Nature of *Mudarabah*

- 8.1 *Mudarabah*<sup>4</sup> is a contract between a *rabbul mal* and a *mudarib* under which the *rabbul mal* provides capital to be managed by the *mudarib* and any profit generated from the capital is shared between the *rabbul mal* and *mudarib* according to mutually agreed profit sharing ratio (PSR) whilst financial losses are borne by the *rabbul mal* provided that such losses are not due to the *mudarib's* misconduct (*ta`addi*), negligence (*taqsir*) or breach of specified terms (*mukhalafah al-shurut*).
- 8.2 *Mudarabah* is a contract based on fiduciary relationship (*aqd al-amanah*). Under this principle, *mudarib* manages the *mudarabah* asset in trust and is not liable for the impairment of the asset except for impairment which is a result of the *mudarib's* misconduct (*ta`addi*), negligence (*taqsir*) or breach of specified terms (*mukhalafah al-shurut*).
- 8.3 Any of the contracting parties has the right to terminate the contract unilaterally except in the following conditions:
  - a) The *mudarib* has commenced the work relating to the management of the capital of the *rabbul mal*; or
  - b) Contracting parties have agreed to enter into a *mudarabah* for a specified time or have agreed not to terminate the contract within a specified time.



# EMPHASIS ON PROFIT AND LOSS TREATMENT

## 13. Loss

- 13.1 A loss is depletion from the value of capital.
- 13.2 Loss shall be borne by the *rabbul mal* up to the capital value.
- 13.3 The *mudarib* shall not be liable for any impairment of asset unless such loss is due to the *mudarib's* misconduct (*ta`addi*), negligence (*taqsir*) or breach of specified terms (*mukhalafah al-shurut*) of the contract.
- 13.4 Notwithstanding paragraph 13.3, in the case of loss the *mudarib* shall furnish the reason for the occurrence of loss.
- 13.5 In the case of multiple *rabbul mal* in a single *mudarabah*, the loss shall be borne by each *rabbul mal* proportionate to his capital contribution.
- 13.6 In the case where *mudarib* commingled or injected his own fund to the *mudarabah*, the loss shall be borne based on the proportion of the *mudarib's* capital contribution in the commingled fund.
- 13.7 The *mudarib* may voluntarily absorb the loss upon the maturity or dissolution of *mudarabah*.

## 12. Profit

- 12.1 Profit sharing is the primary motive of the *mudarabah* contract and therefore it is a fundamental component of the contract.
- 12.2 Profit is the value created over and above the *mudarabah* capital which is determined based on profit determination method acceptable by market standard or practices.
- 12.3 The *mudarib* shall not guarantee any profit.
- 12.4 *Rabbul mal* and *mudarib* shall share profit based on a ratio mutually agreed between them.
- 12.5 PSR shall be determined at the inception of the contract. Nonetheless, PSR may be revised during the tenure of the *mudarabah* subject to mutual agreement.
- 12.6 *Mudarabah* contract shall not stipulate a pre-determined fixed amount of profit to one contracting party which deprives the profit share of the other contracting party.
- 12.7 The profit in the form of certain percentage shall not be linked to the *mudarabah* capital amount.
- 12.8 Notwithstanding paragraph 12.7, the ex-post performance profit amount (based on the PSR which had been mutually agreed upon between the *rabbul mal* and the *mudarib*) may be translated into a fixed percentage yield of the *mudarabah* capital amount.



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# MUSHARAKAH STANDARDS & OPERATIONAL REQUIREMENTS

Ensuring compliance to the basic  
nature of Musharakah

# GUIDANCE ON MANAGING MUSHARAKAH

## 10. Management of *Musharakah*

- 10.1 A *Musharakah* venture may be managed in the following manner:
- (a) Management by all partners; or
  - (b) Management by certain partners or a single partner; or
  - (c) Management by a third party.
- 10.2 The appointment of a third party as the manager shall be executed in a separate contract.
- 10.3 The appointment of a manager may be executed based on *wakalah* (agency), *ijarah al-ashkhas* (employment contract) or *Musharakah*.
- 10.4 A managing partner may be entitled to an agreed remuneration and/or any incentive as agreed by the partners for his services as manager in addition to his share in profit sharing as a partner.
- 10.5 A managing partner shall be liable for any loss caused by his misconduct (*ta`addi*), negligence (*taqsir*) or breach of specified terms (*mukhalafah al-shurut*).

## 8. Definition and Nature of *Musharakah*

- 8.1 *Musharakah*<sup>2</sup> refers to a partnership between two or more parties, which may take effect through contractual relationship (*`aqd*) or by operation of Islamic law, whereby all contracting parties will share the profit and bear loss from the partnership.
- 8.2 Generally, there are two types of *Musharakah* (*shirkah*), namely:
- (a) *Shirkah al-Milk* (Partnership in joint ownership)  
Partnership in joint ownership refers to possession of an asset by two or more persons with or without prior arrangement to enter into a sharing in joint ownership. Under *shirkah al-milk*, the partner's ownership are mutually exclusive. In this regard, one partner cannot deal with other partner's asset without his consent.
  - (b) *Shirkah al-`Aqd* (Contractual Partnership)  
Contractual partnership refers to a contract executed between two or more partners to venture into business activities to generate profit.<sup>3</sup> Under *shirkah al-`aqd*, the partner is an agent to the other partners. In this regard the conduct of one partner in the ordinary course of business represents the partnership.

# EMPHASIS ON PROFIT AND LOSS TREATMENT

## 13. Loss

- 13.1 Loss is depletion from the value of capital.
- 13.2 Loss shall be borne by the partners proportionate to the capital contribution and the loss is limited to the capital.
- 13.3 Upon realisation of loss, any partners may voluntarily absorb such loss.
- 13.4 Loss due to misconduct (*ta`addi*), negligence (*taqsir*) or breach of specified terms (*mukhalafah al-shurut*) by a partner shall be borne by that partner.

## 12. Profit

- 12.1 Profit is the value created over and above the *Musharakah* capital which is determined based on a method acceptable by market standard or practices.
- 12.2 The partners in a *Musharakah* venture shall share profit based on a mutually agreed ratio among them.
- 12.3 Profit sharing ratio (PSR) shall be based on proportionate capital contribution by the partners unless mutually agreed otherwise at the inception of the contract.
- 12.4 The PSR may be revised during the tenure of the *Musharakah* subject to mutual agreement between the partners. The PSR may be revised either based on the mutual agreement of the partners or based on a certain benchmark agreed upon by the partners as the case may be.
- 12.5 The partners may agree on a PSR for a certain threshold of profit. In the event that the actual profit exceeds the threshold, the excess amount may be distributed based on a different PSR agreed by the partners or be paid to any of the partners as per agreement. In the case of profit generated is below the threshold, the profit is shared based on the PSR.
- 12.6 *Musharakah* contract shall not stipulate a pre-determined fixed amount of profit to any partners which may deprive the profit share of the other partners.
- 12.7 The expected return in the form of percentage which is attributed to the *Musharakah* capital amount is only permissible in the form of indicative profit rate.



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# WAKALAH STANDARD (POLICY DOCUMENT)

Ensuring compliance to the basic  
nature of Wakalah Fi Istihmar

# GUIDANCE ON MANAGING WAKALAH FI ISTHIHMAR

## 20. Application of *wakalah bi al-istithmar*

- 20.1 A *wakalah* contract may be entered into for the purpose of investment (*wakalah bi al-istithmar*).
- 20.2 In accordance with paragraph 18.3(c), the agent must not guarantee the capital or return on the investment in any form.
- 20.3 In the event of agent's misconduct, negligence, or breach of specified terms that results in a lower profit rate than the expected profit rate of such investment, the agent shall –
- repay the investment capital;
  - pay the actual profit up to the event of breach; and
  - compensate such loss and damage which the principal is entitled to in accordance with paragraph 14.11.
- 20.4 For the avoidance of doubt, breach of specified terms referred to in paragraph 20.3 includes, but not limited to, breach of the following terms:
- the fund shall be invested in such a manner that generates a certain expected profit rate and the agent breaches that condition which results in a lower profit rate than the expected profit; or
  - the fund shall be invested only in a specific instrument or portfolio and the agent breaches the condition by investing in another instrument or portfolio which results in a lower profit than the expected profit of the specified instrument or portfolio.
- 20.5 In the event a breach of condition results in profit to be higher than the agreed expected profit, the excess profit shall be treated in accordance with the agreed terms and conditions of the performance fee. If the terms and conditions are not stipulated, the principal shall have the discretion to grant the performance fee.
- 20.6 The principal under the *wakalah bi al-istithmar* contract may require the agent to arrange for an independent third party guarantee on the capital.
- 20.7 For the purpose of paragraph 20.6, the following requirements must be observed:
- the guarantee shall be executed as a separate contract to guarantee loss or depletion of capital; and
  - where the third party guarantor is an entity, it shall not be a related party to the agent.
- 20.8 The principal may agree to the agent retaining all or part of the excess profit as performance fee if the actual profit is higher than the agreed expected profit.
- 20.9 In the event that the actual profit is lower than the agreed expected profit, the agent may give *hibah* to the principal to compensate for the difference.
- 20.10 In connection with paragraph 20.9, such *hibah* must not be made obligatory on the agent.
- 20.11 The agent may initiate the investment by advancing his own funds with the consent of the principal.
- 20.12 In connection with paragraph 20.11, such advancement by the agent must not be made as a pre-condition for entering into the *wakalah* contract.
- 20.13 If the agent sets aside a portion of the investment profit as reserves for the principal –
- the agent must obtain the principal's prior consent; and
  - all profit retained in such reserves belongs to the principal.
- 20.14 If the capital provided under *wakalah bi al-istithmar* contract is to be invested together with other pools of funds having similar mandates, the capital must be able to be segregated from the other pools of funds.



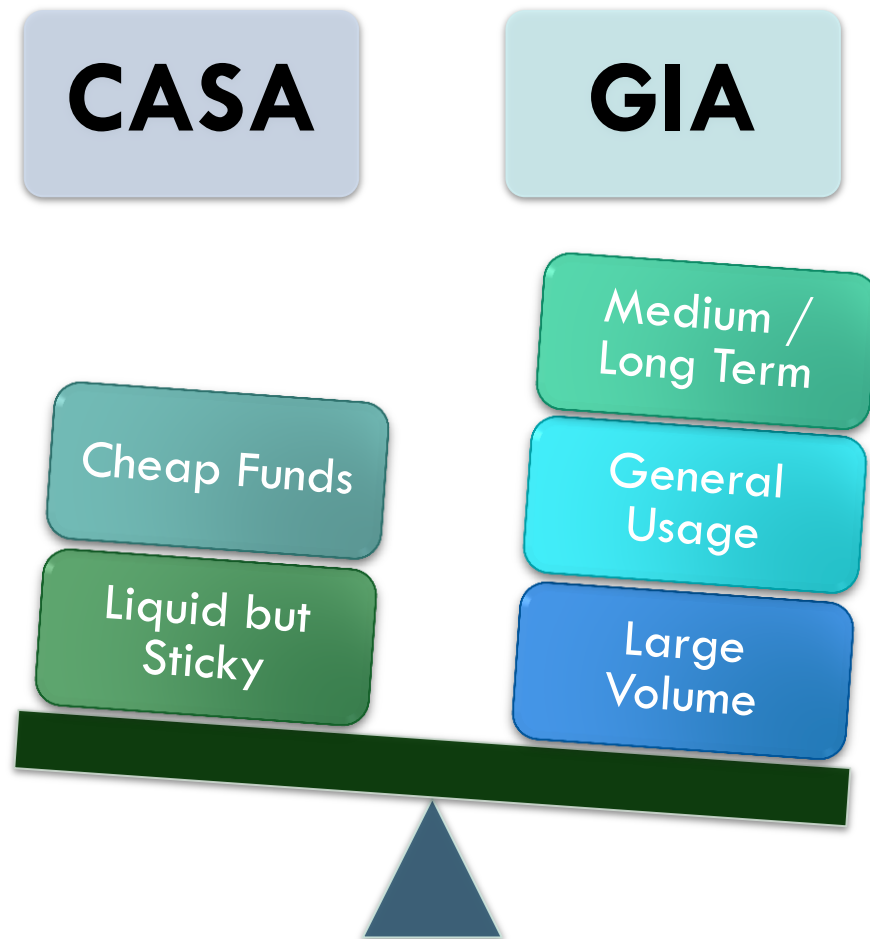
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# ISSUES, CHALLENGES OF INVESTMENT ACCOUNTS

The growing child with its  
tantrums, insecurities and pains

# WHY DEPOSITS ARE IMPORTANT?



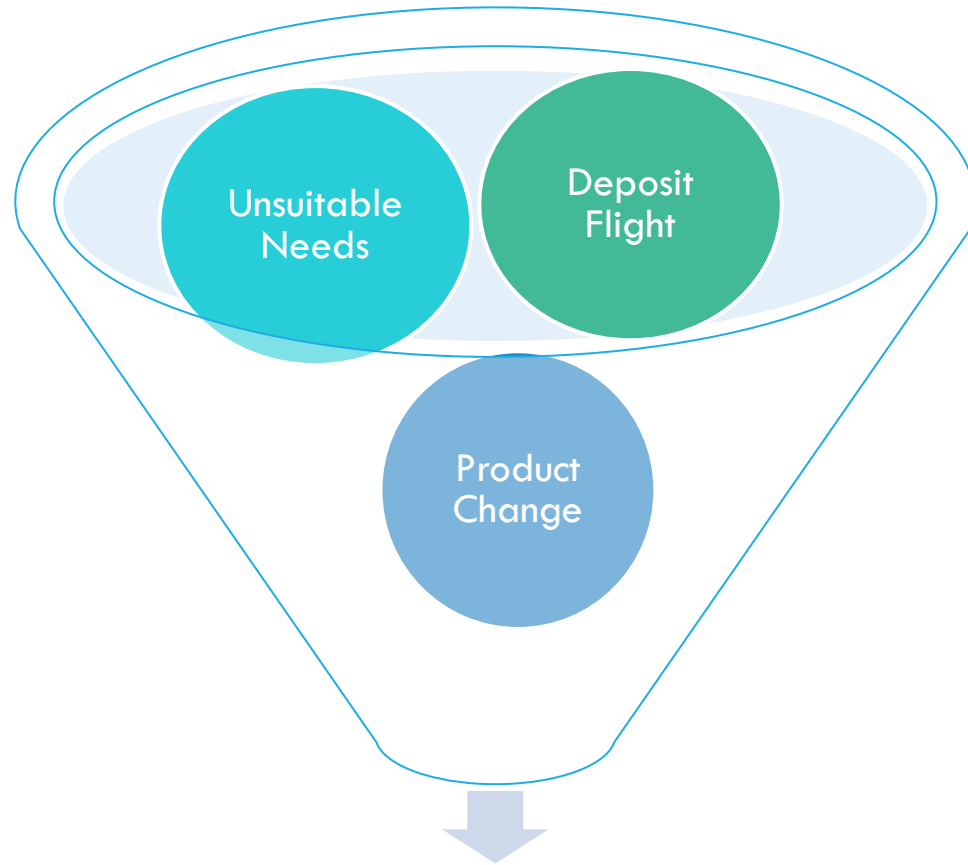
## USES OF DEPOSITS

- ✓ Fund the Bank's Asset and Financing Activities
- ✓ Deploy to take advantage of Investment Opportunities
- ✓ Statutory Reserves
- ✓ Replacement Liquidity
- ✓ Financial Ratios and Stability
- ✓ Fee Generator
- ✓ Cheap source of funding





# IMPACT OF INVESTMENT ACCOUNTS

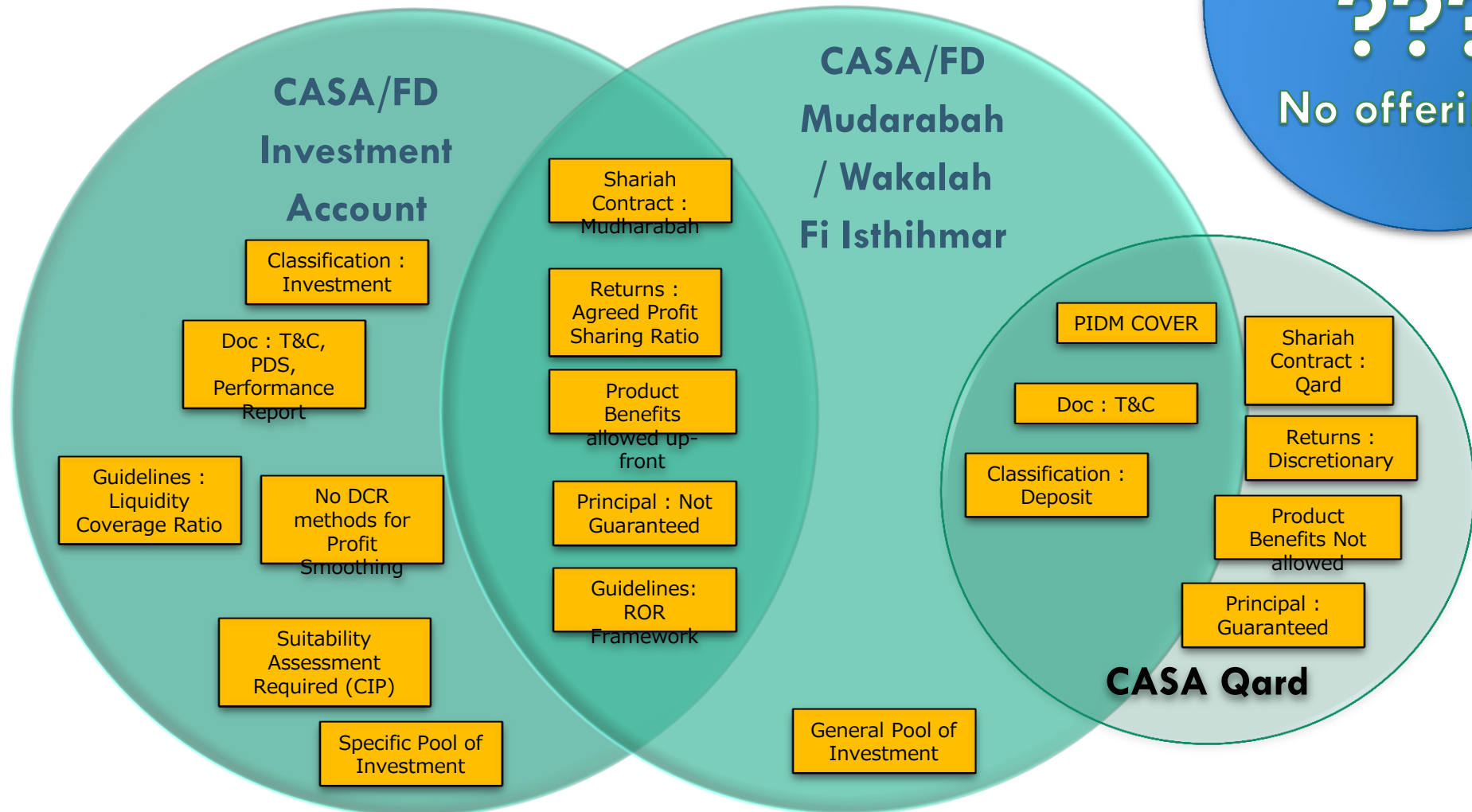


**Strain to BUILD DEPOSITS**

- ✓ Unsuitable Needs – Customer seeking CASA but faced with additional requirements and terminologies. A lot of effort required for awareness
- ✓ Deposit Flight – CASA has been associated with Principal Guarantee, resulting into movement into other “protected” contracts
- ✓ Product Change – Some features changes and more similar to Unit Trusts

*All the above has resulted in challenges for Islamic Banks to grow deposit to fund the financing activities.*

# FEATURES SUMMARY



Musharakah  
 ????  
 No offering yet

# ADVERSE CUSTOMER EXPERIENCE

## No simple CASA solution

- Mudarabah / Wakalah Fi Istihmar CASA now heavily governed
- Explore Tawarruq CASA or remain in generic CASA deposit-types (Qard / Wadiah)

## PIDM Impact

- Removal of PIDM became a key loss proposition for IA, underestimated by many Islamic Banks
- To explore “3<sup>rd</sup> party” deposit guarantee

## Conventional Banking push

- Opportunity for Conventional Banks to promote their products
- Simple easy conversion techniques used

## Awareness Building

- Contract now = Investments which requires understanding of risks and additional disclosures on the principal amount and performance

## Customer Profile

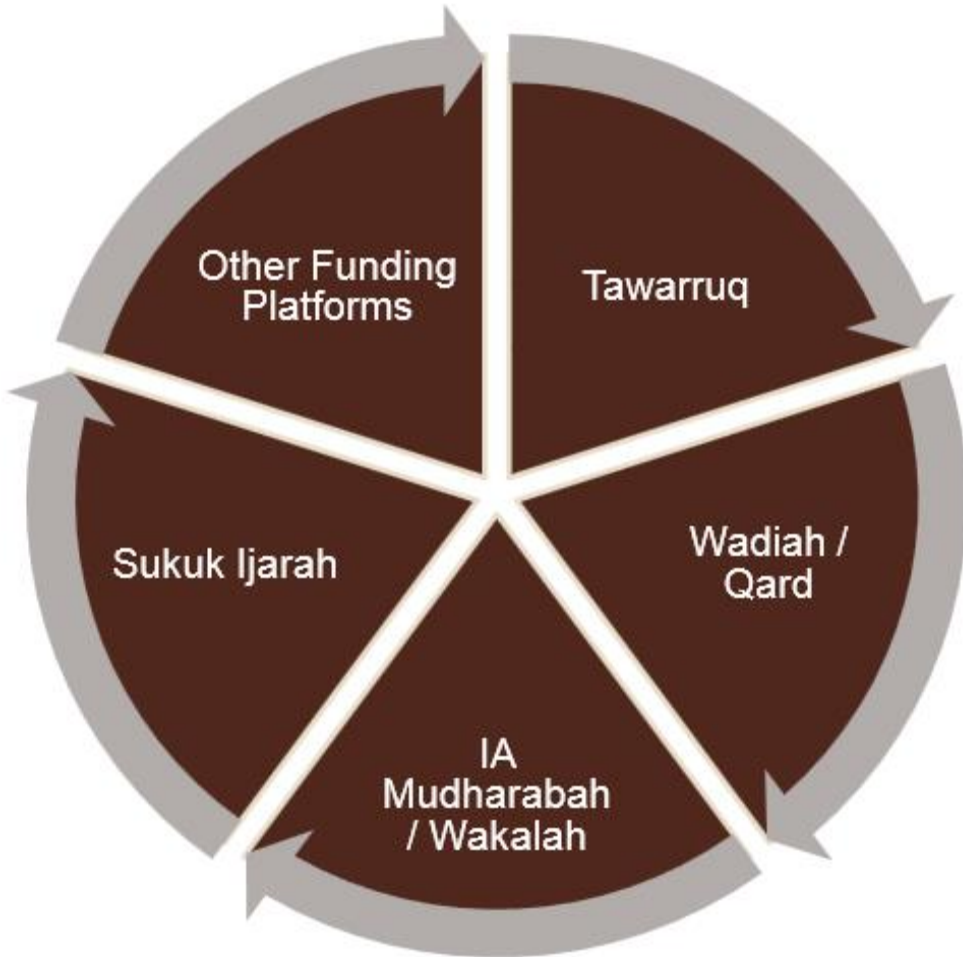
- Alternative “Risk taking products” such as unit trust or mutual fund more suitable for profiling

# “ I SEE UNIT TRUST”

IS THE MARKET READY FOR THIS  
“NEW INVESTMENT PRODUCT”?

	<b>DEPOSITS</b>	<b>INVESTMENT ACCOUNT</b>
Types of Contract	Wadiah / Qard / Tawarruq	Mudharabah / Wakalah fi Istihmar / Musharakah
Principal	Guaranteed	Non-Guaranteed
Profit	Discretionary / Fixed	Profit Sharing
Loss	Not Applicable	Low Return or Principal Loss
Treatment on Balance Sheet	On-Balance Sheet	Off-Balance Sheet or On-Balance Sheet
Risk Profile	No Risk	Low/Medium Risk
Tenure	On Demand	Tenured
PIDM Coverage	Yes	No
Disclosure Format	Savings Account	Unit Trust
Investment Instruments	General	Defined Investments (UA) or Specific Investment (RA)
Customer Documents	Terms and Conditions	PDS, Terms and Conditions, Performance Report, Risk Profiling

# FINDING THE RIGHT ISLAMIC PRODUCTS



**ISLAMIC BANKS  
ARE ALWAYS  
ASKED TO FIND  
NEW SOURCES  
OF FUNDS TO  
SUPPORT THE  
BUSINESS  
ACTIVITIES AND  
FUND THE  
ASSETS**

What other alternative deposit raising structures are available if:

1. Qard-based structures are a challenge to promote
2. Tawarruq CASA structures are a challenge due to high operational costs (commodity trading fees)
3. Investment Account under Mudarabah and Wakalah Fi Istihmar structures are a challenge due to the compliance and reporting requirements

Is there a space to use Musharakah structures for raising deposits?



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# THE WAY FORWARD

INVESTMENT ACCOUNT  
PLATFORM (IAP)

# BUILDING DEPOSITS



## Basic

Current Account and Savings Account based on Wadiah or Qard i.e. Principal protection and preservation

Unattractive proposition for deposit building due to limitation to promote products.

**Low Risk and Low Returns on Deposits**

## Term

Structured term placements with defined returns on the deposits.

Sale-based structure using the Tawarruq Arrangement (Commodity Murabahah) to provide stability of returns and Principal protection.

**Low to Medium Risk with relevant fixed returns on Deposit**

## Investment

Savings Account with a more aggressive stance towards the investment assets and specific performance of these assets.

Risk Sharing contracts such as Mudarabah

Requires detailed disclosures on performance to mitigate higher risks.

**Medium to high risk products with potentially higher sharing of returns to reflect the level of risk.**

## Direct Funding

Deployment of deposit into pure investment structures where Investors take direct risks on performance.

Equity Risk Sharing contracts such as Musharakah

Requires significant level of disclosure and risk warnings, as well as performance forecasts.

**High risks with potentially highest returns, on a profit sharing model but also potentially having a risk on capital**

# POSITIVE INDUSTRY DEVELOPMENT

Increase in  
Sophistication

- Good platform to move into pure Investment Account by understanding the disclosures

Understanding Risks

- Better understanding between the risks and rewards pay-off in an Investment-type account

Potentially Higher  
Returns

- Returns tagged to actual performance which potentially may be higher

Active Management of  
Funds

- Better understanding of performance of the investment markets, returns and risks

Shariah consistent

- Consistent with the real contract for investments



# WHY INVESTMENT ACCOUNTS HAVE A GOOD FUTURE?

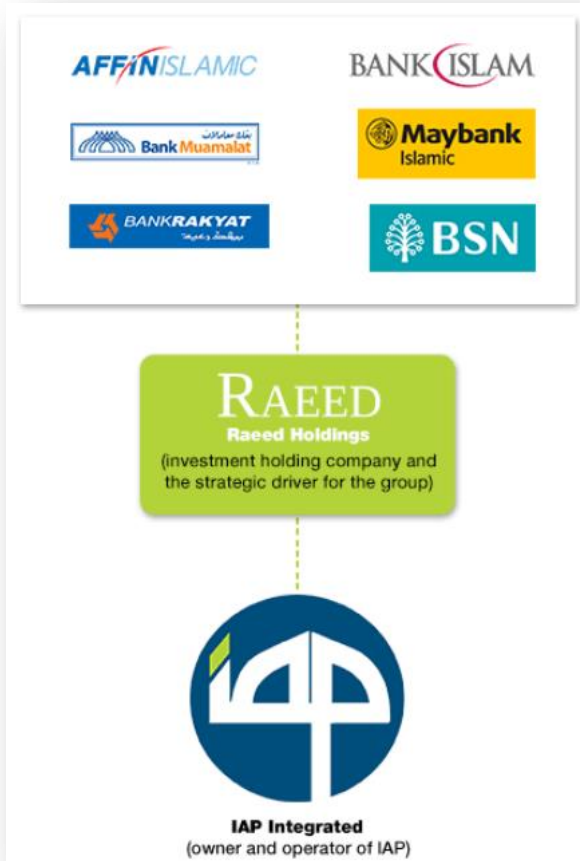
Investment Accounts can provide flexibility to open opportunities to invest in various levels of Risk instruments for better returns.

However, most structures aims to provide:

1. Capital preservation
2. Mitigated / controlled risks
3. Maximum returns

Not many participative structures of sharing of risks





### Vision

To be the leading multibank platform for Shariah compliant capital mobilisation, supported by a conducive ecosystem.



### Mission

To provide a tech-driven avenue of choice for fund raising and investment in support of real economic growth.



### Objectives

To provide an enabling environment with different value propositions to accommodate the following stakeholders:

- Sponsoring Bank** - Efficient capital management and sustainable source of fee-based income
- Investor** - Wider range of shariah-compliant investment options in various types of economic activities
- Venture** - Greater access to business financing

# INVESTMENT ACCOUNT PLATFORM (IAP)

Rethinking the way the Banks support customers who seeks “Investments” and companies that seek “funding”, riding on the expertise of Islamic Banks. Investors take on acceptable risks for rewards This is a significant shift from the Basic Deposit way of raising funds.

# FEATURES OF IAP

- i. Investment Accounts are being promoted by BNM to “match make” Banks and potentially good ventures via Investment Account Platform (IAP).
- ii. The intention is to link between the retail / corporate “investors” directly with companies seeking funding for their businesses.
- iii. This model is similar to crowd funding, but without the business having to surrender their equity to their “investors”

## Key features of IA

Investors can **specify where funds are channelled to** (i.e. choice of underlying ventures to invest in)

IA represents the **contractual relationship** between the investors and the Islamic banks

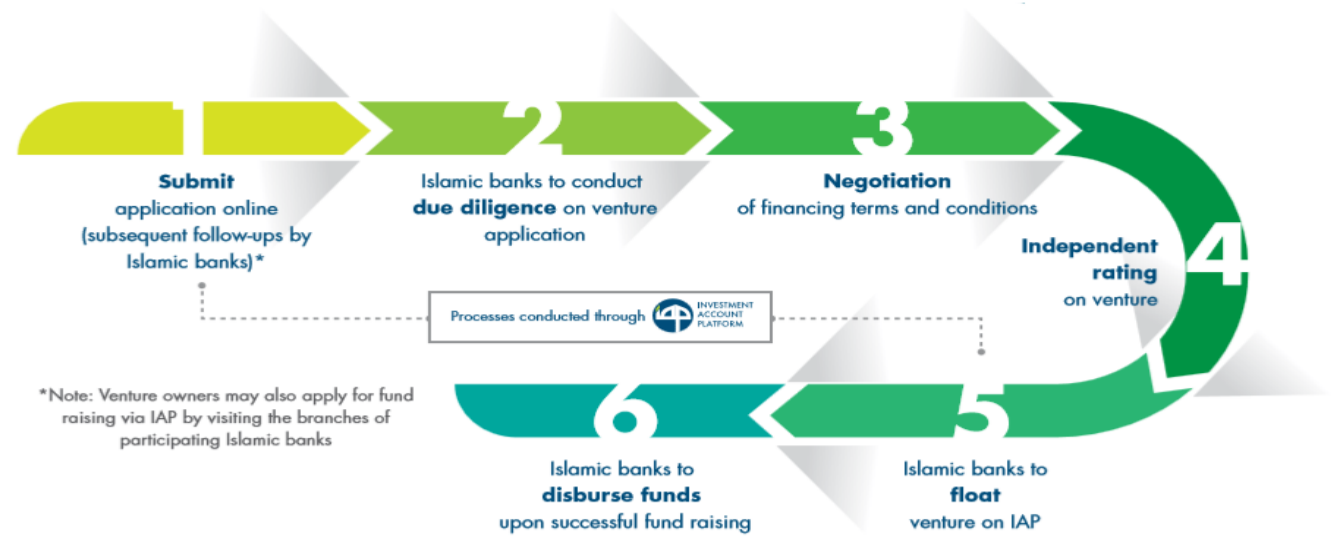
Investors **may define investment mandate** and eligibility criteria for the financing (e.g. investment tenure and types of industry) to Islamic banks

Returns of IA are based on the **performance of underlying ventures** (i.e. Islamic banks will enter into a different contractual relationship with venture owners)

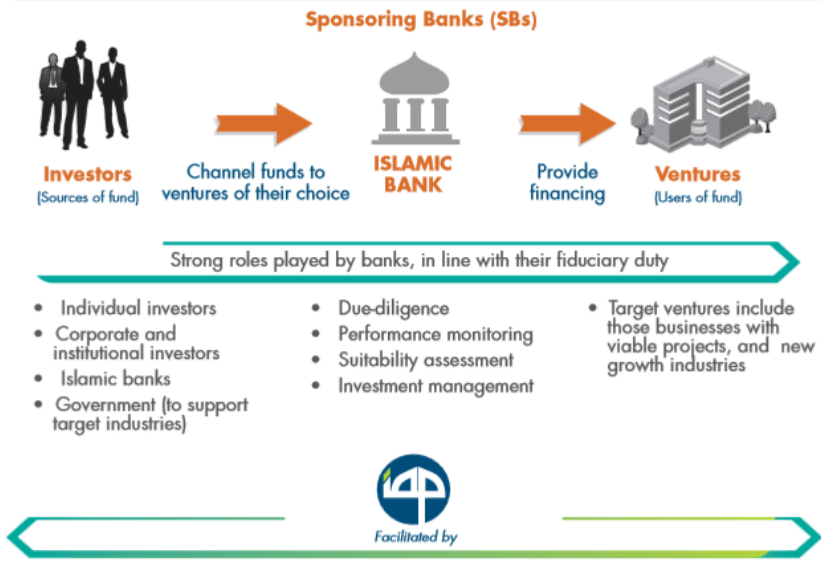
Similar to other investments in the market, funds placed under IA are **not capital protected**. IA is not guaranteed by PIDM

ONE OF THE INNOVATION OF ISLAMIC BANKING IS THE INTRODUCTION OF INVESTMENT ACCOUNT PLATFORM (IAP). THE IAP AIMS TO TAKE ADVANTAGE OF THE ISLAMIC PRINCIPLES OF RISKS AND PROFIT SHARING TO THE NEXT LEVEL

## Simple steps in raising funds



## How it Works



## Benefits:

1. Encourages Profit Sharing, Risk Taking, and Strong Governance
2. Minimum Funding Size RM500,000 up to 5 years financing
3. Companies and SMEs with a 3-5 years financial track record
4. Rides on existing Bank credit infrastructures and assessment expertise
5. Pushes companies to become more transparent and competitive

# IMPACT OF IAP



1. Bank is no longer a Bank, but a equity funding facilitator. Bank will utilise its expertise to assess the viability of the investment
2. Direct funding from public investors to entrepreneurs or business partners. Funding not from Bank
3. Familiarise with structures similar to Venture Capitalist
4. Bank may provide Rating of the entrepreneurs and feasibility assessment to the Investors for a fee
5. Investors need to be more savvy to understand the behaviour of investment
6. The ownership of the Investment need to be clear ie it is taken by fund provider into their portfolio as direct investor
7. No capital charge or impairments to the Bank

# CHALLENGES FOR IAP

Introduced in 2015, IAP has taken off on a low-profile manner as the market familiarise with the concept of equity sharing and medium/high risk investment ventures.

## QUESTION:

Is the market ready for Musharakah Accounts, and its risks?



- Redemption = Replacement of Investment with other similar profile Investors
- Difficulty in Valuation for Investment (MTM) & methodology
- Operating, Credit, Market, Ownership Risks borne by Investors
- Investment for project life, Illiquid investments
- Returns = Actual Performance, Payback Period, Dividend Pay-out cycles
- Cash Flows not retained by Bank i.e. not able to benefit core deposits.



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# SUMMARY : INVESTMENT ACCOUNTS

Key takeaways from the introduction of IFSA 2013 and its impact on Deposits into Investment Accounts

# SUMMARY

## FUTURE OF DEPOSITS UNDER IFSA 2013

- ✓ Options under Qard and Wadiah expected to be restrictive
- ✓ Investment Accounts offers a viable way to build deposits by offering potential benefits from investments
- ✓ Market is slowly moving to IA as it provides differentiation opportunities
- ✓ Acceptance and awareness on IA is key for growth
- ✓ There are operational challenges for IA to comply with the strict requirements by BNM
- ✓ Failure to build deposits via IA will result in stress for the Islamic banking industry
- ✓ IAP, although different from IA, will provide a financing / funding avenue for clients to obtain capital while participating in the sharing of risks and returns.



THANK YOU FOR YOUR ATTENTION



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# GLOSSARY



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Term	Explanation
Hibah	<i>Gift</i>
Ijarah	<i>Leasing (Operating Lease)</i>
Mudarabah	<i>Profit Sharing Entrepreneurship</i>
Mudarib	<i>Manager / Entrepreneur</i>
Musharaka	<i>Joint Venture Partnership</i>
Muwakkil	<i>Principal</i>
Qard	<i>Interest-free Loan</i>
Rab Ul Mal	<i>Capital Provider</i>

Term	Explanation
Shariah	<i>Islamic Law</i>
Sukuk	<i>Islamic "Bonds"</i>
Taqsir	<i>Negligence</i>
Tawarruq	<i>Monetisation Arrangement via trading</i>
Wadiah	<i>Safekeeping Arrangement</i>
Wakalah	<i>Agency Arrangement</i>
Wakalah Fi Istihmar	<i>Agency for Investment Arrangement</i>
Wakil	<i>Agent</i>