

## **Islamic banks offer more competitive deposit products in Sabah**

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According to Bank Negara Malaysia, the total Islamic deposits were amounted to RM340, 695.8 million in 2011 and RM494, 738.3 million as at the end of 2014. This exponential growth suggests that Islamic deposit sector is gaining importance and acceptance by bank customers in the country. Owing to increased competition and market changes in the banking sector, Islamic banks need to come up with creative products that can uphold their existing customers and enticing new ones. Although limited, Islamic banks, so far, have developed a few exceptional deposits that come with unique Shariah principles, features and pricing mechanisms.

For instance, Hong Leong Islamic Bank's Online Islamic Fixed Deposit-i is distinctively developed where it is integrated with the bank's online banking facility. It caters for a fixed return whereby the return on investment is mutually agreed at the point of placement. In the same vein, Bank Muamalat Malaysia Berhad (BMMB) introduces Fixed Term Account-i that offers higher returns. The placement ranges from 1 month to a maximum of 60 months. According to Islamic Financial Services Act (IFSA) 2013, a deposit is explicitly defined as a sum of money accepted or paid in accordance with Shariah, to be repaid in full, with or without any gains, return or any other consideration in money's worth.

Furthermore, this article is aimed at explaining two issues, which offer better comprehension of what makes Islamic deposits competitive than their peers. Issue #1: Do Islamic deposit products similar like their peers? Issue #2: What are reasons that explain Islamic deposit products competitive? These issues are observed from the context of Sabah, East Malaysia. Concerning issue #1: Extrinsically, Islamic and conventional deposits are viewed to be similar owing to the fact that both are viewed as banking products. Intrinsically, however, some appealing discrepancies are emerged to differentiate the two. This article expounds two key differences but are not limited to the following:

Shariah principle – Typically, Islamic deposit products are governed by Shariah principles to reflect their different purposes and market segments. This issue has been prioritised by the IFSA 2013 in which the products are governed by three Shariah principles, viz., al-wadiah, al-qard and tawarruq. In Sabah, for instance, Bank Islam Malaysia Berhad (BIMB) offers Term Deposit-i, which is governed by tawarruq principle. It is a deposit account that allows customers the flexibility of managing funds according to the customers' financial goals.

Return to depositors – In general, Islamic banks offer hiba (i.e. returns/gifts) based on the performance rather than guaranteeing it. What is guaranteed is principal (i.e. capital) placed by depositors to the account. For instance, account holders for BMMB's Al-Wadiah Savings Account are provided hiba based on the bank performance. The principal is guaranteed while hiba is not. Fairly, however, some Islamic banks offer higher hiba when the banks earn higher profits from their investments.

Concerning issue #2: There exists evidence that shows Islamic deposit products are outperformed compared to their conventional counterparts. To support this assertion, this article explains three reasons but are not limited to the following:

Product ranges - The introduction of the IFSA 2013 brings a positive impact towards the evolution of new Islamic deposit products. Three customers from BIMB were approached to answer this questions “Do you think that BIMB has enriched its product after the introduction of the IFSA 2013?” Qualitatively, three of them reached the consensus and concurred with their answers that the bank has extended its product offerings into various forms to diversify its deposit base, which in turn will promote savings culture among depositors. The bank offers Wadiah Savings Account, Wadiah Basic Current Account, Term Deposit-i (tawarruq) and Negotiable Islamic Debt Certificate (NIDC), among others.

Financial benefit – Islamic deposit products have exclusive financial benefits, making them realistic and competitive banking products in the marketplace. By definition, financial benefit refers to the extent to which Islamic deposit products offer distinctive financial benefits to depositors. In practice, the products offer hiba, free savings passbook, ATM card facilities, salary crediting and mobile banking facility, among others. For instance, BIMB’s Wadiah Savings Account-i provides hiba to depositors on a monthly basis based on the bank’s discretion. This facility provides hassle – free safekeeping of depositor’s money whereby the depositor can access to his account at any point of time.

Enhanced bank-customer relationship – The IFSA 2013 has classified banking accounts into deposit and investment products. Concerning the former, clear types of deposit products are emerged, viz., demand, savings and fixed deposits where Shariah principles covering wadiah, tawarruq and bay al-inah come into play. In the Islamic banking sector, however, there is no creditor-debtor relationship between an Islamic bank and a customer. It is developed on a trust basis whereby their roles are of trustee and trustor, respectively. Stereotypically, the depositor is the one who contributes a deposit to the trust while the bank is the one who manages the trust, safeguards it and fulfils the withdrawal request by the depositor. Captivatingly, an innovative deposit product, Negotiable Islamic Debt Certificate (NIDC) by BIMB has created colour to the industry. In this product, however, the rapport established is that of buyer and seller in which both parties, the bank and the customer serve as (i) seller and buyer and (ii) buyer and seller, respectively.

The three interviewed respondents agree that Islamic banks in Sabah, offer numerous financial benefits to their deposit products in line with their peers. They assert that the contractual relationship between Islamic banks and depositors is established on a “trust” rather than on a lending-borrowing archetype. They argue that the banks promote both social and profit motives in their product offerings as well as their investments. These responses prove that the banks are discrete not only in product ranges but also in diversifying their customers’ deposit portfolio. All told, Islamic banks have been committed to offer their customers with improved deposit products where enhanced product ranges are provided along with proper inculcation of financial benefits as well as enhanced bank-customer relationship. This makes the products, somewhat, more competitive and worthwhile to meet the depositors’ motives of precautionary, transaction and investment.

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