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# Islamic Investment Deposit Account Through Mudarabah & Commodity Murabahah Contract: An Overview

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## ABSTRACT

The Islamic investment deposit product is one of the tools which increase the capital source of the Islamic financing facilities. As an alternative to the conventional interest-based investment deposit product, the Islamic bank used the profit sharing analysis or also known as mudarabah contract for their investment product. But, despite a few issues with mudarabah investment deposit product and additional rules of the Islamic Financial Service Act 2013 on the Islamic deposit product, many Islamic bank looks at other alternative on their investment deposit facility. Therefore, the introduction of commodity murabahah or tawarruq-based deposit could be the best alternative to take place. Hence, this paper aims to explore the current Islamic deposit products which available in Malaysia market. The discussion will include the shariah contract used, the product mechanism and framework and the differences.

## INTORUDCTION

The word "investment'' usually defined as a creation income activities which develop the economic growth of the society. These not just benefit to the big corperation or high income earner, but it's also helping those low income and non-profit organization as part of their financial objective. As a financial intermediary, a bank plays a vital role to provide a financial adviser to the public especially on the part of income growth. Today, there are a lot of products or financial instruments available for the investment activities which consist of both short and the longer term maturity. Term deposit or also known as fixed deposit in conventional banking is one of the investment tools for the retail banking segment. With hold the short term investment principles, this product give more variety choice to its client on the part of maturity period, such as monthly, 3-months, 6 – months and twelve months ( a year) and the return rate are accordance with the investment period. Besides that, the Term deposits are also function as a part of capital contribution for the banking source of funds.

As the product have the process of pre-determined profit rate at the early of the contract, thus, it found to be contradicted with the philosophy of Islamic law. Besides rejecting the pre-determined profit rate for the investment, an Islamic bank which fully guided by the Shariah law will be operated by trade and profit as to determine the rate of return for the investment products and used the concept of profit and loss sharing basis for the venture (Mirakhor & S. Khan, 1989). Mudarabah contract was used for the Islamic investment product as the nature of the contract is based on the profit sharing basis. The Islamic bank act as an entrepreneur while the depositor is responsible for the judge of capital contribution parts. Any profit rise on the venture will be shared among the parties which based on the pre-agreed ratio, while the losses only borne by the capital contribution or depositor subject to no due diligent mistake by the bank.

Mudarabah General Investment Account (MGIA) is the commercial name for the Islamic investment product which currently exist in the Islamic banking market of Malaysia. After more than 20 years establish of Mudarabah General Investment Account, there are few issues and debating which regards to the Shariah law. On top of that, the new rules of the Islamic Financial Service act 2013 make this product more pressure as the new guideline stated that, only such contract *qard, murabaha,wadiah* and *tawaruq* only can be used on the liability side of the Islamic banking balance statement (Ghafar & Nik, 2013). Most of the Islamic banking in Malaysia looking for the other alternative for the Islamic deposit product despite from the new rules imposed.

The Commodity Murabahah Deposit (CMD-i) or also referred as Tawaruq term deposit looks more suitable for the solution of the Mudarabah deposit investment product. This paper is based on theoretical analysis which aims to discover more details on these two products and discuss the different features available.

## THE DIFFERENCE BETWEEN MUDARABAH GENERAL INVESTMENT ACCOUNT AND COMODITY MURABAHAH DEPOSIT

### i) Mudarabah General Investment Account-i

Islamic banking avoids any interest-bearing deposit account as a payment receipt of interest is forbidden from the Shariah law perspective. For the purpose of trade and earning a profit, Shariah law imposed a profit sharing mechanism as their primary business model. This operation looks more justice and fair to the society as compared to the interest concept. The profit sharing concept which became the main operation of the Islamic business model, usually used the contract of Mudarabah and musyarakah partnership.

The contract of mudarabah can be simply explained as a place for the meeting point of the capital contribution partner and the entrepreneur which the profit from the investment or project will shared according to the capital ratio as per agreed on the early of the contract. According to Simon Archer & Rifaat Ahmed (2009), mudarabah contract is a relationship between capital and work where one party act as an entrepreneur or mudarib for the venture and the other partner will responsible to contribute the capital and act as sleeping partner. The meaning of mudarabah is also support in the Quranic verses as stated in verse 20 , al-Muzamil:
‘’….others travelling throught the land, seeking of Allah’s bounty…’’

The nature of profit sharing and the element of investment activities in the Mudarabah contract seems to be the ideal to replace the interest-mode deposit. Based on the Shariah Parameter by Bank Negara Malaysia for mudarabah contract, one of the product adoptions for mudarabah in Islamic banking is investment deposit. Thus, the product named as Mudarabah General Investment Account (MGIA) and Mudarabah Special Investment Account (MSIA) which applies for the all Islamic bank in Malaysia became the investment deposit product with purely under the review of Shariah.

A Mudarabah general investment account provides an investment opportunity that operates under the contract of Mudarabah. The Mudarabah contract is a partnership contract whereby the depositor or customer is known as *rabbul mal* who is seeking the investment opportunity and will invest through the bank that is known and act as *mudarib* who manage the fund. The partners will share profits according to the earlier agreement. Some example of the profit sharing ratio are 40:60, 50:50, 70:30 and it’s depending to the bank performances.

Under the general investment account, there is no minimum tenure of investment is required. The *mudarib* has a broad range to invest and trade on the basis of trust and expertise they acquired.

Based on figure 1, below are the explanations of the Mudarabah contract process:

1. Depositor and bank agree on the terms of Mudarabah and profit-sharing ratio. The depositor then provides fund to the bank.
2. The bank invests the funds and manages its operation.
3. The profit generated by the investment will be shared between the parties based on the pre-agreed ratio. In the event of loss, the depositor as an investor will bear all the losses and the bank will lose the resources spent.

**ii) Commodity Murabahah Deposit**

Murabahah literally means a sale on mutually agreed profit. The words are derived from the Arabic root *ribh* which mean gaining or profit. In English, the word it is of often referring as mark-up, or cost plus-financing (Khan, 2008). Commodity *Murabahah* is one of the financing product offered by Islamic banking by using financing contracts. This product fall under similar generic category of "*Bai al-Amanah"* and it is from major category of *"uqud al-mu'awadhat"* (exchange contract) which covers all types of transactions including sukuk. The basic business transaction of *Murabahah*, the bank initially will buy certain tangible asset, then sells it to the clients those who want to own that asset. Technically, in the case of commodity murabahah, bank will buys certain commodity from a broker and sells to the client which does not want to own the commodity, therefore, they sells the commodity to another broker to get cash. There are several types of Murabahah contract, that being practiced by modern Islamic banks such as Simple Murabahah, Agency Murabahah, Murabahah to purchase order, Tawwaruq and Bai al-Inah. The developments of Islamic banking in this particular product rise the quandary among the Islamic banking user, which they claimed that the commodity murabahah against the Islamic norm. However, according to Alsayeed (2010), on the principle basis murabahah not violate the Islamic norms. He emphasized that commodity murabahah covers all the type of exchange contract which permissible in Islam. In that transaction, the exchange contract gives certain quantity if one commodity traded for a given quantity of another commodity, it is including money.

Commodity Murabahah Program (CMP) was introduced in Malaysia as an initiative of Bank Negara Malaysia to support Islamic financial institutions in order to facilitate liquidity management and investment purposes. This cash deposit product is based on namely the *tawwaruq* principle. *Tawwaruq* terms are come from *Arabic* words *wariq* which means character or symbols for silver. However, *tawwaruq* also given a wider meaning in seeking cash by various means such as gold, silver and etcetera. Basically, *tawwaruq* is a process of sale contract whereby at first a buyer buys an asset from a seller with deferred payment and simultaneously sells the asset to the other party for cash with a price lesser than deferred price for the purpose of obtaining the cash. According to the rules developed by *fuqaha*, the purchase price in the transaction must be known and the successive selling must be clarified especially to an intermediary (Khan, 2008). Besides, it is necessary for the commodity to be purchased and take to be possession, physical and constructive by the bank in *Shariah*-compliant *murabahah.* Therefore, it is assumed that the risk of the commodity will remain under bank possession and ownership. The *tawwaruq concept* quite similar to *bai al-Inah* based instrument due to they share the same substance and consequences. Yet, the two major differences between this two instrument that is the third party intermediary present in the concept of *tawwaruq* and in the case of *bai al*-Inah, the object is returned to the original owner whereby in *tawwaruq* that kind of conditions does not exist (Bank Negara Malaysia).

Even though *bai al-Inah* transaction has been disallowed by the two past jurists from Malikis and Hambalis schools, yet this two scholar does not reject the *tawwaruq* outright. This principle has been long discussed among the Shariah scholars worldwide and it was officially endorsed permissible instrument and practically implemented since 28$^{th}$ July 2005 (Bank Negara Malaysia, 2007). The features of CMP is, this product provides certainty of return based on pre-agreed 'margin' and 'mark-up' from the sale and purchase of the underlying asset. The *ulama* also permit *tawwaruq* permissible based on *Quranic* verses and *fiqhiyah* methods that has all trading are permissible as long as it is *halal* except transactions that involved *haram*- including the qualities guide by the *Quran* and *sunnah*. On that basis, *tawwaruq* is *halal* transaction because it does not include any dispute prohibiting trading transactions.

This programme was also available in the Islamic investment retail deposit. Tawaruq term deposit –I or also called as commodity murabahah deposit-I is one of the alternative for the Islamic investment account. The usage of tawaruq contract into the liquidity management was also actively conducted in the Middle East Countries. In the case of Malaysia, the commodity used for the tawaruq transaction is Crude Palm Oil (CPM) which manage by the Bursa Suq al-Sila'. Due the high demand on the products, the underlyin asset was extended into several types of commodity which are telecomincation air time, Condensed Milk and etc.

The mechanism of CMP for absorbing the liquidity illustrate in Figure 1 describe as follows:

(a) For the purchase transaction worth of RM100k, a customer should appoint the bank as an agent for them.

(b) During the transaction, customers should pay the *purchase price* immediately, while signing the contract with the purpose of *the purchase transaction.*

(c) On the same day or it can be the next business day, the agent (bank) needs to purchase Rm100k commodity from the supplier according to the deposit period.
(d) Therefore, the supplier is responsible to provide the RM100k commodity to the bank;
(e) After that, the bank will receive RM100k worth of commodity from the supplier
(f) On the customer part, they will receive the notification for ownership of the commodity
(g) Then, customer will sell back the commodity to the bank with a deferred sale price (RM100k + x% profit) according to the maturity date.
(h) Bank therefore purchase (RM100k + x% profit) of commodity. At this level, the bank owned the commodity;
(i) The bank may sell the commodity (RM100k + x% profit) to XYZ company
(j) The XYZ company buys (RM100k + x% profit) commodity from the bank
(k) Therefore, the bank will receive cash money for the commodity transaction from XYZ company
(l) On the maturity date, the bank need to pay the deferred sale price under sale transaction and customer will receive the amount from agreed sale price (i.e principal + X% profit).

## CONCLUSION

Both contracts Mudarabah and Commodity Murabaha provide similar function which help to boost the economic growth and one of the investment alternative products for the retail segment. But, there are some differences which the customer for commodity murabahah deposit will enjoy the up-front profit while for the Mudarabah, the customer only knows the profit during at the end of investment period. Other than that, the customer or capital provider for the mudarabah account will have two possibilities either profit or loss. But for the commodity murabahah, the customer definitely enjoys the profit as the trading concept of mark-up sale appears between the customer and bank.

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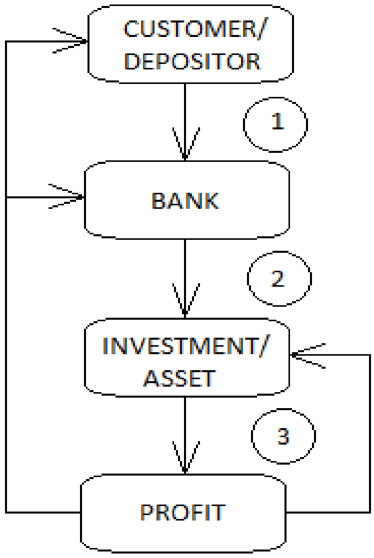
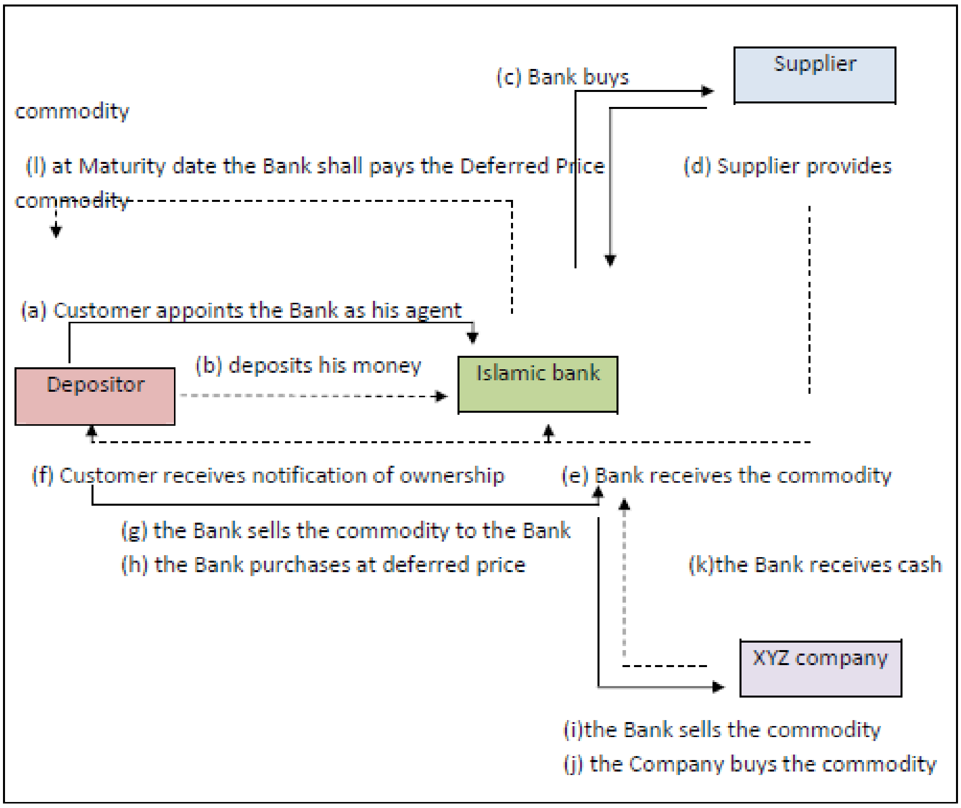



FIGURE 1: The Mudarabah Contract Process

Figure 1: Structure of Term Deposit Based on *Tawarruq*




(Source: adopted from Ismail, Ghani and Zain, 2013)

FIGURE 2: Commodity Murabahah Programme Structure and Mechanism for Liquidity Absorption

| | **Mudharabah General Investment Account (MGIA)** | **Commodity Murabah Deposit –i** |
|---|---|---|
| Contract used | Mudharabah | Tawaruq, Murabahah & Wakalah |
| Profit determine | Profit Sharing Ratio | Mark-up Profit |
| Upfront profit | Not Allowed | Allowed |

TABLE 1: Comparison between MGIA and CMD-i