

[DOI: 10.20472/IAC.2015.018.002](https://doi.org/10.20472/IAC.2015.018.002)

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ISLAMIC ASSET MANAGEMENT IN THE MALAYSIA BANKING INDUSTRY: A PRELIMINARY ASSESSMENT

Abstract:

This paper aims to explore the preliminary understanding of Islamic asset management in the banking industry. To date, a uniform regulatory and legal framework supportive of Islamic asset management has yet to be developed. This paper explores and provides an understanding on the existing concept of Islamic asset management that has been used in the banking industry today. The discussion on this is divided into three parts that will answer the following three questions: Firstly, what is the meaning of Islamic asset management in the banking industry? Secondly, how do the banks manage all the assets? Thirdly, is the concept of Islamic asset truly based on 'Shari'ah' and guaranteed all the customers on the Islamicity of the products? In accomplishing these objectives, library research is mainly used to obtain the different types of theories and concepts on asset management applied to this paper with content analysis carried out from the findings. The findings of this paper reveal that Islamic asset management that has been used in the banking industry is still hold on to the conventional theory as the foundation.

Keywords:

Islamic Asset Management, Banking Industry,

JEL Classification: G20

INTRODUCTION

Islamic asset management is not a new thing in the finance industry. It has developed since the establishment of the Islamic banking and finance industry nearly four decades ago. In Malaysia, the need of Islamic asset management has shown a dramatic increase from the time when Malaysia has become the platform for the pioneer of International Islamic finance hub. With the establishment of Malaysia International Islamic Finance Centre (MIFC) in 2006, Malaysia finance industry started to grow rapidly and serves as an epicenter for innovation and thought leadership in Islamic Finance.

Up to now, banking industry is still waiting for a uniform regulatory and legal framework supportive of an Islamic asset management to be developed. This present study seeks to explore on the understanding of the Islamic asset management in banking industry to better comprehend the concept of asset management used in practice for banks nowadays. To find the answer, this paper analyzes the three questions accordingly. Firstly, what is the meaning of Islamic asset management in the banking industry? Secondly, how do the banks manage all the assets? Thirdly, is the concept of Islamic asset truly based on 'Shari'ah' and guaranteed all the customers on the Islamicity of the products?

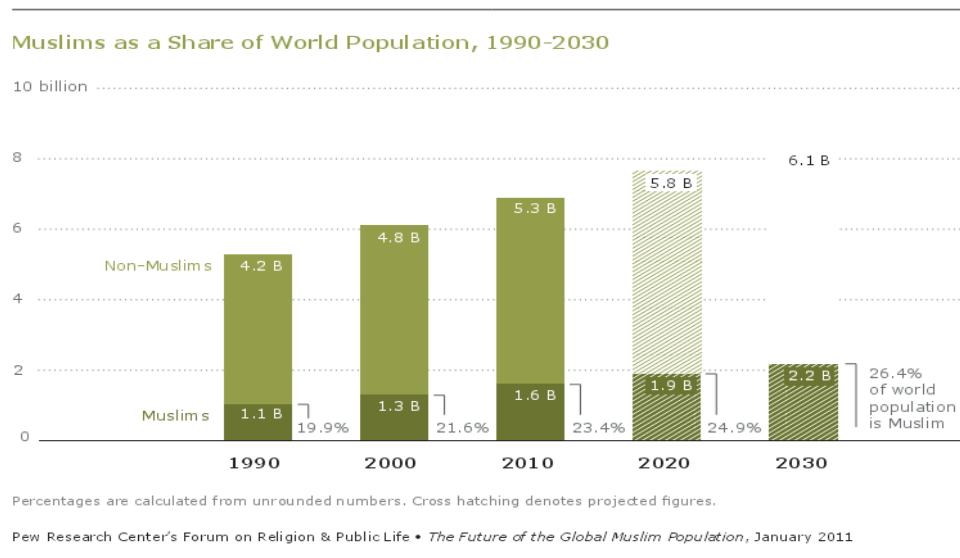
To answer the questions and achieve the objective, this paper will provide the discussion that is divided into three parts. This paper aim to provides information on the concept of Islamic asset management used in the Islamic banking and finance industry and as well as to provide recommendation on how to overcome the obstruction arise.

THE DEVELOPMENT OF ISLAMIC BANKING AND FINANCE INDUSTRY

The history of Islamic banking and finance industry can be traced back four decades ago and still growing strong until now. Islamic asset management developed in line with the development of Islamic banking and finance industry. According to CIMB Principal Islamic Asset Management Sdn Bhd, the development of Islamic asset management has been driven by the rising demand for Shari'ah-compliant investment from an estimated growth of Muslim population worldwide. The world's Muslim population is expected to increase by about 35% in the next 20 years, rising from 1.6 billion in 2010 to 2.2 billion by 2020¹. It shows that Islamic banking and finance industry is in the crucial stage of its development. In Malaysia, the launched of the second Financial Sector Master Plan (FSMP II) ease the path of this mushrooming activity in the Islamic banking and finance industry especially in the Islamic asset management part. As the country transitions towards a high value-added and high-income economy, the role of the financial sector is envisioned to grow beyond its role as an enabler of growth to be a key driver and catalyst of economic growth². One of the focus areas under FSMP II is Internationalization of Islamic finance will help Malaysia to continue the efforts to be undertaken to enhance the financial ecosystem.

¹ The Pew Forum on Religion & Public Life, The Future of the Global Muslim Population, Jan. 2011.

² Bank Negara Malaysia, Financial Sector Blueprint 2011 - 2020 Publication.

Figure1: Muslims Estimated World Population, 1990 – 2030

(Source:

The Pew Forum on Religion & Public Life, The Future of the Global Muslim Population, Jan. 2011)

The development of Islamic banking and finance industry in Malaysia can be traced back during the establishment of *Tabung Haji*³ (the Pilgrims Management and Fund Board) in 1963 by the government. This is the first step and opportunity for many people especially Muslim to participate and invest in the economic activities. The introduction of a systematic process of executing the Islamic financial system by the government is divided into three phase. The first phase is the familiarization phase; beginning in 1983 to 1992. This was the period of the establishment of Bank Islam Malaysia Berhad (BIMB); the Islamic banking operation in accordance with Shari'ah principles. The second phase is from 1993 to 2003. During this period, the aim was to create a more conducive environment for competition among banks. This is also a period when conventional banks were allowed to offer banking services by setting up "*Islamic Window*"⁴. And the last or the third phase commenced from 2004 onwards, where this was the period of further financial liberalization (BNM, 2004). During this period, Central Bank covered the way for foreign Islamic bank to operate in Malaysia by issuing licenses to them. Malaysia became the first country to implement a dual banking system. The Malaysian model has been recognized by many Islamic countries and in fact Malaysia has become the Financial Hub for Islamic Finance in the Asia region. As of now, there are 25 commercial banks, 16 Islamic banks, 5 international Islamic banks, 15 investment banks and 2 other financial institutions operating in Malaysia banking industry.

The Islamic banking and finance industry in Malaysia continue to grow in the rapid pace. This is proven by the development of the Islamic banking industry has expanded 22% in

³ *Tabung Haji* is a specialized financial institution that provides a systematic mobilization of funds for Muslims to assist them perform the pilgrimage in Makkah. Hamim, Naziruddin, Syed. (2006).

⁴ *Islamic window* refer to the introduction of the concept of interest free banking in conventional banks.

overall banking sector with the sukuk market now accounts for 55% of the debt securities market⁵. With the expected increase in the world's Muslim population, the Islamic banking and finance industry will be the key main player in the financial industry in the years to come.

UNDERSTANDING ISLAMIC ASSET MANAGEMENT IN BANKING INDUSTRY

The development of Islamic asset management in banking industry started to grow during the establishment of Bank Islam Malaysia Berhad (BIMB) in 1983. Since then, Islamic asset management continue to develop and grow rapidly. Islamic asset management is grounded in Islamic finance principles, which express an explicit intention to meet the financial needs with integrity and in a manner that is tangible, fair, trustworthy and honest⁶. Thus the concept of Islamic asset itself should be based on Islamic philosophical underpinning. In contrast, Islamic asset management in the banking industry nowadays is more focusing on investing and expanding sector in the Islamic capital market. Sohail (2008), mention in his research that the world of Islamic asset management has expanded significantly and takes pride in the creation of new financial instruments such as sukuk and alternative investment product.

The Islamic asset management product and services offered by banks are now growing day by day as the demand for this Shari'ah product and services had a significant increase after the economic downturn. The demand for Islamic asset management will continue to grow in the near future to come because Shari'ah compliant asset management has emerged as an important of the wider asset management industry (Wilson, 2007). With diverse products and services offered, the power of Islamic asset management will continue to grow rapidly in the next decade.

Since the launched of FSMPII, Islamic banking and finance in Malaysia today has achieved significant advancement to evolve into comprehensive Islamic Financial system that is able to contribute effectively to the economic growth process⁷. The progress of Islamic asset management starts with the rise of the Islamic banking system that emerged as a competitive and a viable substitute for the conventional banking system during the last three decades. Malaysia is now actively involved in designing new Islamic financial instruments for capital and money market transactions. But most of this product and services offered by banks are comply with the Islamic principles not based on it. It shows that the understanding and application of Islamic asset management is predominantly conventional based with the adaptations made to ensure Shari'ah-compliant aspects are adhere to (Shereeza, 2011).

⁵ Financial Sector Master Plan I, Bank Negara Malaysia.

⁶ CIMB-Principal Islamic Asset Management, Case for Islamic Asset Management

⁷ Dr Zeti Akhtar Aziz is the Governor of Bank Negara Malaysia, in her speech on the press release of the blueprint for the *Second Financial Sector Master Plan (FSMPII)*.

Similarly, the term wealth management is often used by Islamic banks to describe their asset management product and services. Islamic asset management or wealth management hold the same meaning in the banking industry. The difference is the way banks presented their product and services on how to educate their customer on the understanding of the concept of Islamic asset management. Even though Islamic asset management is gaining its popularity at the present time, certain issues of Islamic asset management are still in questions. The issues are focusing on the meaning of the term Islamic asset management itself.

ISLAMIC ASSET MANAGEMENT VS WEALTH MANAGEMENT

Islamic asset management generally means managing group of asset for high net worth individuals and institutions with a Shari'ah rules as a foundation. The basic meaning of asset management is a collective investment which objective is to provide maximum results at minimum investment or low cost. The term Islamic asset management is synonymous to its conventional counterpart save for its Shari'ah compliant aspects given that the Islamic banking and finance still uses the common terms with the conventional market (Valentine, 2007).

Peterson (2006) defined asset management as a global management process through which we consistently make and execute the highest value decision about the use and care of our assets. He added that strategic asset management involves managing the capital investment towards a long-term program of increasing the return on. The concept of Islamic asset management in the banking industry is more focusing on managing wealth. The term Islamic asset management itself should be synchronized with the Islamic rules and regulation. The objectives and philosophies of Islamic asset management should be in line with the revelations in the *Qur'an* and *hadith* (Sudin Haron, 1997). It provides the meaning that all transactions are suppose to be based on the concept of honesty, justice and equity.

Table 1: Product and services of asset management offered by selected International and Commercial Islamic Banks in Malaysia.

Bank/Financial Institution	Product & Services Offered	
Al-Rajhi Bank Berhad	Wealth Management	-Wealth Creation: Unit Trust, Gold price -Wealth Protection: Estate Planning services -Services: Safe Deposit Box
Kuwait Finance House Malaysia Berhad	Wealth Management	-Will writing services (<i>Wasiat</i>) -Managing Estate -Takaful PA Refund -Islamic Unit Trust Funds -Travel PA Takaful
CIMB Islamic Bank Berhad	Asset Management	-Private Equity -Real Estate

		-Strategic Asset -Structured Investment -Structured Products
RHB Islamic Bank Berhad	Wealth Management	-Islamic Estate Planning -Services: Will Writing, Trusteeship, Declaration of ' <i>Harta Sepencarian</i> ', Declaration of Hibah, Wakaf documentation, Hibah
Amlslamic Bank	Wealth Management	-Bancatakaful -Negotiable Instrument of Deposit- <i>i</i>
Bank Islam Malaysia Berhad	Wealth Management	-Unit Trust -Structured Investment

(Source: Reconstruct from the banks' websites)

Table 1 shows that the product and services of asset management offered by selected international and commercial Islamic banks. It is found out that most Islamic banks opt for the term wealth management for their asset management products and services. The term wealth management is usually used in order to manage asset in banking industry especially in the Islamic banking sector. Islamic banks usually opt for the term wealth management for managing asset like unit trusts and pension funds. This wealth management products and services are provided in almost all Islamic banks. For instance, Al-Rajhi Bank Berhad offers wealth management product and services that include wealth creation, wealth protection and services.

Despite all the wealth product and services offered by Islamic banks, the term Islamic wealth management itself carry out a different meaning from one institution to another. The term Islamic wealth management is usually defined as managing Shari'ah-compliant wealth using the structured Islamic principles. This definition of Islamic wealth management is still standing within the conventional counterpart of conventional wealth management. Reassessing the term of wealth management should be done from an Islamic philosophical underpinning.

One issue that has been highlighted by Muhammad Syukri Salleh (2010), is that an Islamic wealth management has to be redefined the meaning of wealth from its own Islamic perspective. He suggests that the redefinition of wealth has to be molded by the Islamic worldview and epistemological roots where wealth should not be measured by the tangible and quantifiable methods alone but it has to be sculpted within *Tawhidic* paradigm involving intangible and unquantifiable methods (Muhammad Syukri Salleh, 2010:5).

UNDERSTANDING ISLAMIC ASSET MANAGEMENT

Conventionally, asset is defined as anything owned by individuals, companies, such as cash, property, goods, savings and investment. Asset is also defined by quantitative

measurements of one's material possession, based on conventional asset management or economic theories (Muhammad Syukri Salleh, 2011).

In contrast, Islamic asset should carry out the meaning within the framework of Islamic philosophical underpinning. According to Imam Syafie, an asset is classified as an asset when it has the value to be sold and can be charged a penalty for those who destroy it⁸. The main criteria of Islamic asset should embrace the foundation from Islamic dogmas that derived from *Qur'an* and *Sunnah*. According to Muhammad Syukri Salleh (2010), the Islamic assets could be categorized into three types as follows:

- 1) Celestial asset which refers to assets that are mentioned and based on *Qur'an* and *Sunnah* such as *zakat*, *waqf* and *sadaqah*.
- 2) Man-made asset which refers to the assets created and available in the banking and finance industry.
- 3) Social security asset which refers to the assets that guarantee the well-being of human beings such as insurance and *takaful*.

This redefined meaning of the term asset will give a new outlook to the Islamic asset management industry. It will give a clearer view that asset should be classified not only focusing on one's possession but also the unseen or intangible parts. In the term of Islamic asset management, asset is not the only item that gave a big impact on the meaning as a whole. The meaning of the word asset itself plays an important role to the whole term.

Since Malaysia is implementing dual Islamic banking system⁹, the management of product and services are based on the Shari'ah scholar assigned at the Islamic banking industry. It seems that the concept of man to manage the asset carry out the most important part in the Islamic asset management concept. Conventional understanding of man believes that human being is not fully human (pseudo human). While the concept of man in Islam differs from the conventional understanding as man in Islam has a dual role in their life.

The first role of human in the Islamic perspective is the relationship with Allah SWT. This is a vertical relationship, where man is a servant of Allah SWT (*habl min Allah*). Whereas the second role of man is the relationship of man with other human being, including all the natural resources (*habl min al-nas*). This is a horizontal relationship, where man should take care of the relationship with all human being. In this role, man plays the role of a *khalifah* of the creator. The difference in this concept of man in Islam with the conventional theory is towards achieving the ultimate goal. The conventional theory holds that man's ultimate aim is consumption which is mainly geared by desires whereas in Islam consumption is seen only as a tool to be used to achieve the ultimate of man that is

⁸ Cited and translated from Jalal al-Din Abd Rahman B. Abu Bakar al-Suyuti. (1998). *Al-Ashbah Wal-Nazair Fil Qawaid Wa Furu' Fiqh as-Syafi'iyah. Jilid 2*. Beirut, Lubnan. Darul Kutub al-Ilmiyah, pp:171.

⁹ Dual banking system refers to an Islamic banking system whereby an Islamic banking system functions on a parallel basis with the conventional banking system.

in achieving Allah's pleasures (Muhammad Syukri Salleh, 2003: 25). The concept of man in the term Islamic asset management is focusing on the role of man play in managing and understanding the term itself. Conventionally, the ultimate aim of man is mainly geared by desires of making profit that are match with the objective of asset management. While in Islam, profit is important but it is not the ultimate aim. The ultimate aim in Islamic asset management should be achieve in line with Allah's pleasure (*mardat* Allah).

Referring to the term Islamic asset management as stated by Wilson (2007), it encompasses both fund management and discretionary portfolio services for institutions and individuals of high net worth. Islamic asset management generally means managing a group of asset with the Islamic rule and regulation based on Shari'ah. At the same time, some people still believe that since the reality of Islamic asset management is in question as both conventional and Islamic asset management start and continue in nearly identical processes and share nearly all the same methodologies (Sandwick, 2009). Islamic asset management often accused of merely adapting conventional ideas and products. Thus redefining the term based on Islamic philosophical underpinning will make Islamic asset management concept and the management are truly based on Islamic *tasawwur* and epistemology.

Karim (2002) summed up that the process of the development of Islamic economics must be founded on the five principal bases of *tauhid* (oneness of Allah), *adl* (justice of Allah), *nubuwwah* (prophethood), *khalifah* (representative of Allah on earth) and *ma'ad* (ultimate destiny of humankind). Thus the concept of Islamic asset management should be conducted with honesty, faithful and trustworthy manner as highlighted in the *Qur'an* and *hadith*.

CONCLUSION

The discussion in this paper has guided us to the general understanding of Islamic asset management in the banking industry. Islamic asset management is an Islamic based asset management that complies with Shari'ah. This is why many investor, researcher and scholar are interested in Islamic asset management. With the development of Islamic finance globally, Islamic asset management has gaining its popularity. Understanding the real concept will help to identify the deficiency that will generate further understanding on Islamic asset management. Thus this paper hopes it can help to strengthen the gap and deficiency in the term and concept of Islamic asset management used in the banking industry. It will also help to clear certain issue arise in the industry especially in the term of Islamic asset and wealth management. Despites whether it is wealth management or Islamic asset management, it will continue to grow in the financial industry and will continue on growing with a better understanding.

There should be an objective towards a shift in Islamic asset management although profit is intended it should not be the ultimate goal. Conventional asset management primarily moved by desires to make profit. In Islam, profit refers to the intangible concept of *rezk* (sustenance) and *barakah* (blessings). Thus the ultimate goal in Islamic asset management is one's awareness towards achieving *mardat* Allah. Redefining the term

Islamic asset management should be based on Islamic philosophical underpinning that will make Islamic asset management concept and the management are truly based on Islamic *tasawwur* and epistemology.

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