



# ISLAMIC CONSUMER/RETAIL BANKING

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# AGENDA



Introduction



Islamic  
Deposit &  
Investment



Islamic Asset  
Financing



Islamic Cash  
Financing



# INTRODUCTION

Retail banking is also known as consumer banking or personal banking

Provides financial services to individual consumers rather than businesses.

Facilitates individual consumers to

manage their money

have access to credit

deposit their money

Services offered include

CASA

Mortgages

personal loans

credit cards

certificates of deposits (CDs)

Now – broadened product offerings, with investment services

wealth management

brokerage accounts

private banking

retirement planning

# RETAIL BANKING VS CORPORATE BANKING

## RETAIL BANKING

Provides financial services to individual consumers or general public, including HNW individuals (retail customers)

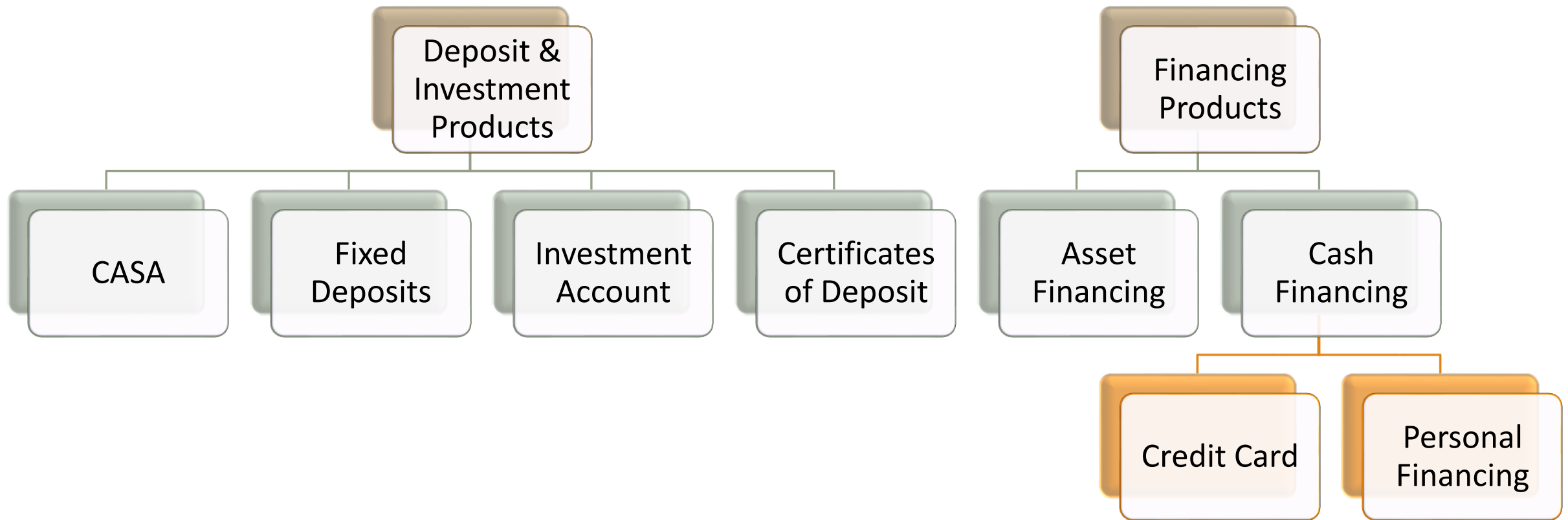
Scope of products & services offered in retail banking is customer-oriented

## CORPORATE BANKING

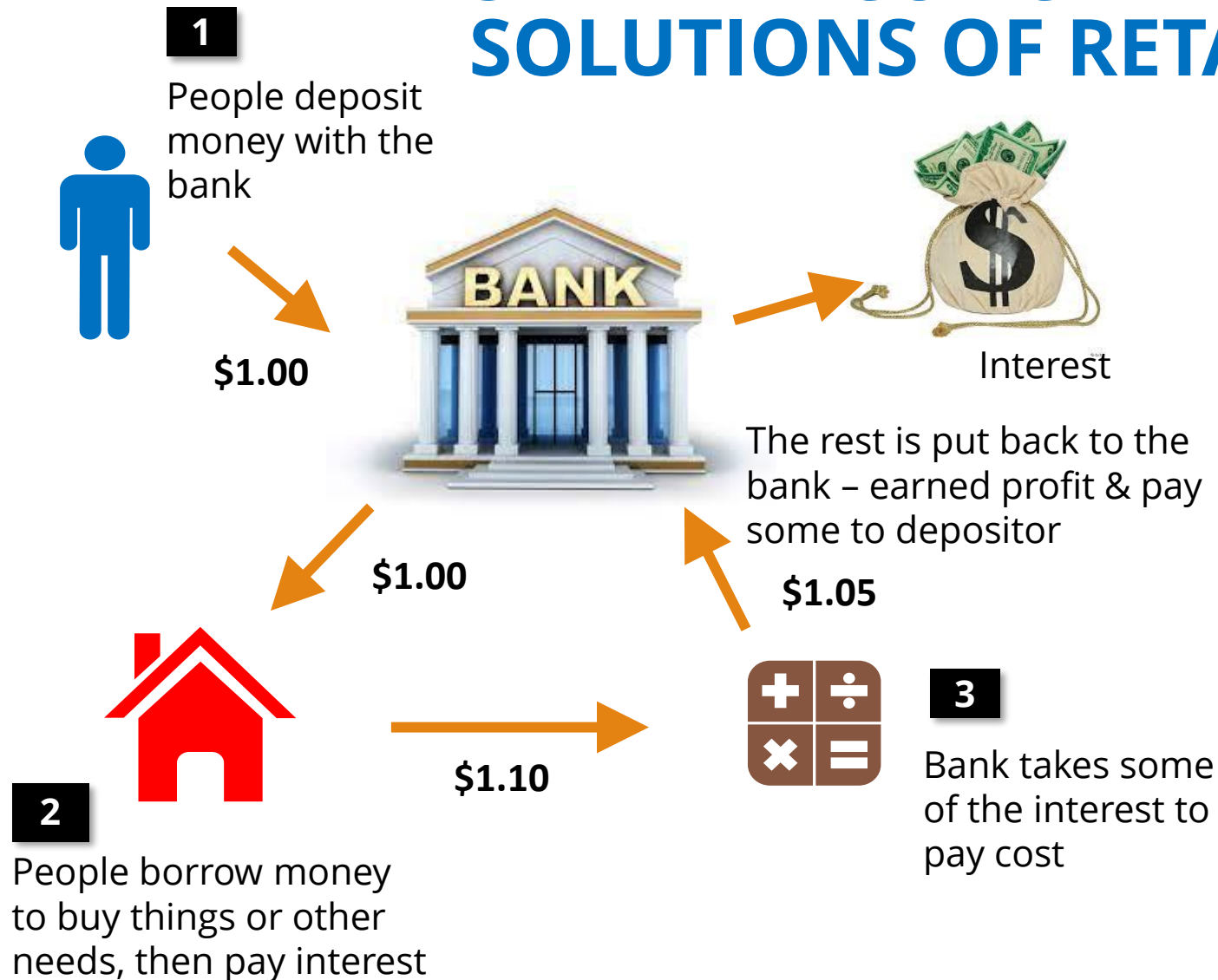
Provides financial services to institutions, small or large companies & corporate bodies (corporate customers & businesses)

Scope of products & services offered in corporate banking is business-oriented

# MAIN CONSUMER/RETAIL BANKING PRODUCTS



# SHARIAH CONCERNS ON CONVENTIONAL SOLUTIONS OF RETAIL BANKING



| TRANSACTION   | RIBA                   |
|---|------------------------|
| Deposit taking by conventional bank                     | Qard                   |
| Loan granted by conventional bank                       | Qard                   |
| Conventional credit card                                | Qard + Riba Jahiliyyah |
| Compounded interest penalty due on defaulted customers. | Riba Jahiliyyah        |
| Conventional FX forward                                 | Riba Nasi'ah           |
| Delay in FX settlement > T+2                            | Riba Nasi'ah           |

# SHARI'AH COMPLIANT SOLUTIONS FOR RETAIL BANKING?

**Islamic  
Deposit &  
Investment**

**Islamic Asset  
Financing**

**Islamic Cash  
Financing**



# DEPOSIT PRODUCTS

## Differences Between Retail, Corporate & Inter-Bank Deposits

|                      | RETAIL DEPOSIT        | CORPORATE DEPOSIT  | INTER-BANK DEPOSIT     |
|----------------------|-----------------------|--------------------|------------------------|
| Counterparty         | Individuals           | Corporations       | Financial Institutions |
| Amount               | Small                 | Large              | Large                  |
| Profit Rates         | Non-Negotiable        | Negotiable         | Negotiable             |
| Tenor                | 1M/3M to 5Y           | O/N to 1Y          | O/N to 1 Y             |
| Market Segment       | Retail – Consumer/SME | Wholesale          | Wholesale              |
| Point of Transaction | Branches              | Treasury/Branches  | Treasury               |
| Regulatory Treatment | Stable Deposit        | Not Stable Deposit | Not Stable Deposit     |

# DEPOSIT VS INVESTMENT (MALAYSIAN)

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In the past, prior to IFSA 2013 – the distinction between Islamic deposit & Islamic investment was not that clear

However – IFSA 2013 provides new definition:

- Islamic deposit is principal guaranteed vis-à-vis Islamic investment which is principal non-guaranteed
- Because of that, mudarabah or wakalah account does not qualify as a deposit, but is an investment
- Note: Protection by Malaysia Deposit Insurance Corporation (PIDM) is only on deposit, not investment

# ISLAMIC RETAIL DEPOSIT & INVESTMENT PRODUCTS

- Islamic finance offers a variety of alternatives for retail deposit & investment products
- Most are accepted by all; a few are controversial & disputable among scholars



## DEPOSIT

- Qard / wadi'ah yad damanah
- Reverse Commodity Murabahah
- Negotiable Islamic Debt Certificates – NIDC

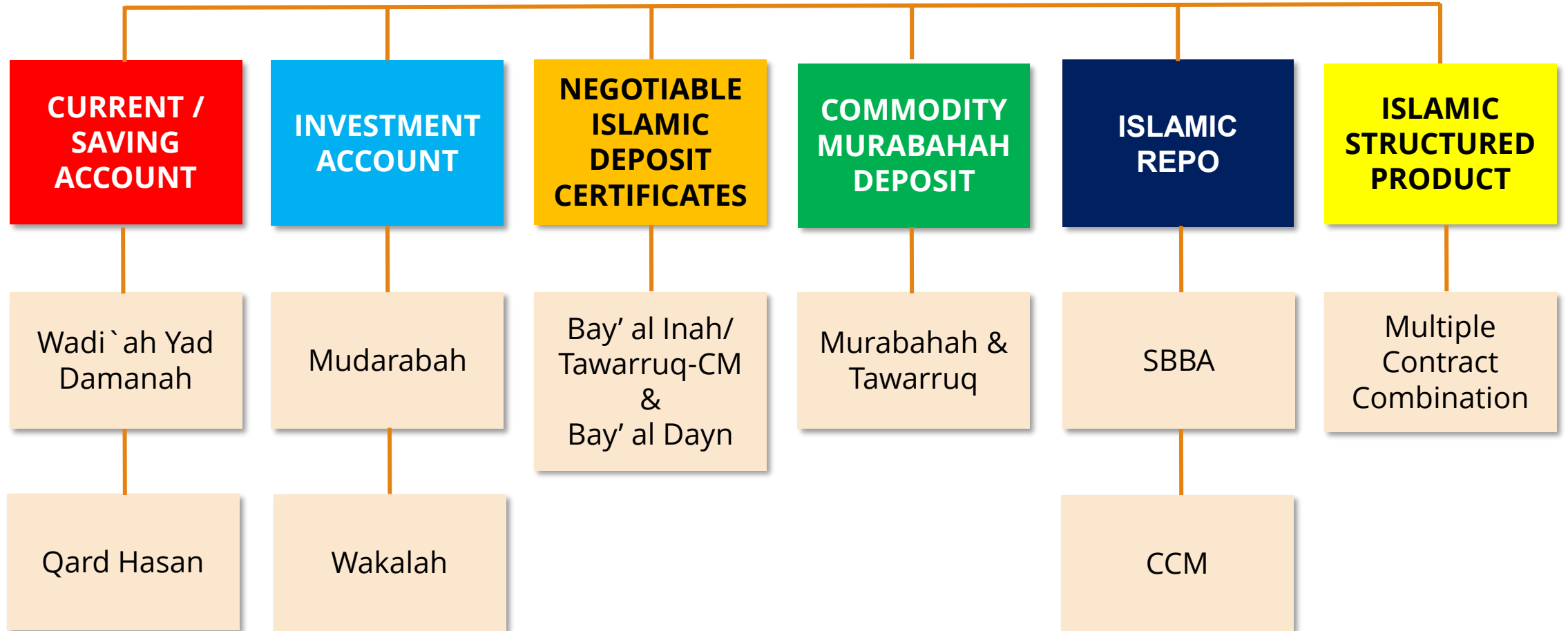


## INVESTMENT

- Mudarabah Account
- Wakalah Placement
- Islamic Repo (SBBA / CCM)
- Islamic Structured Product

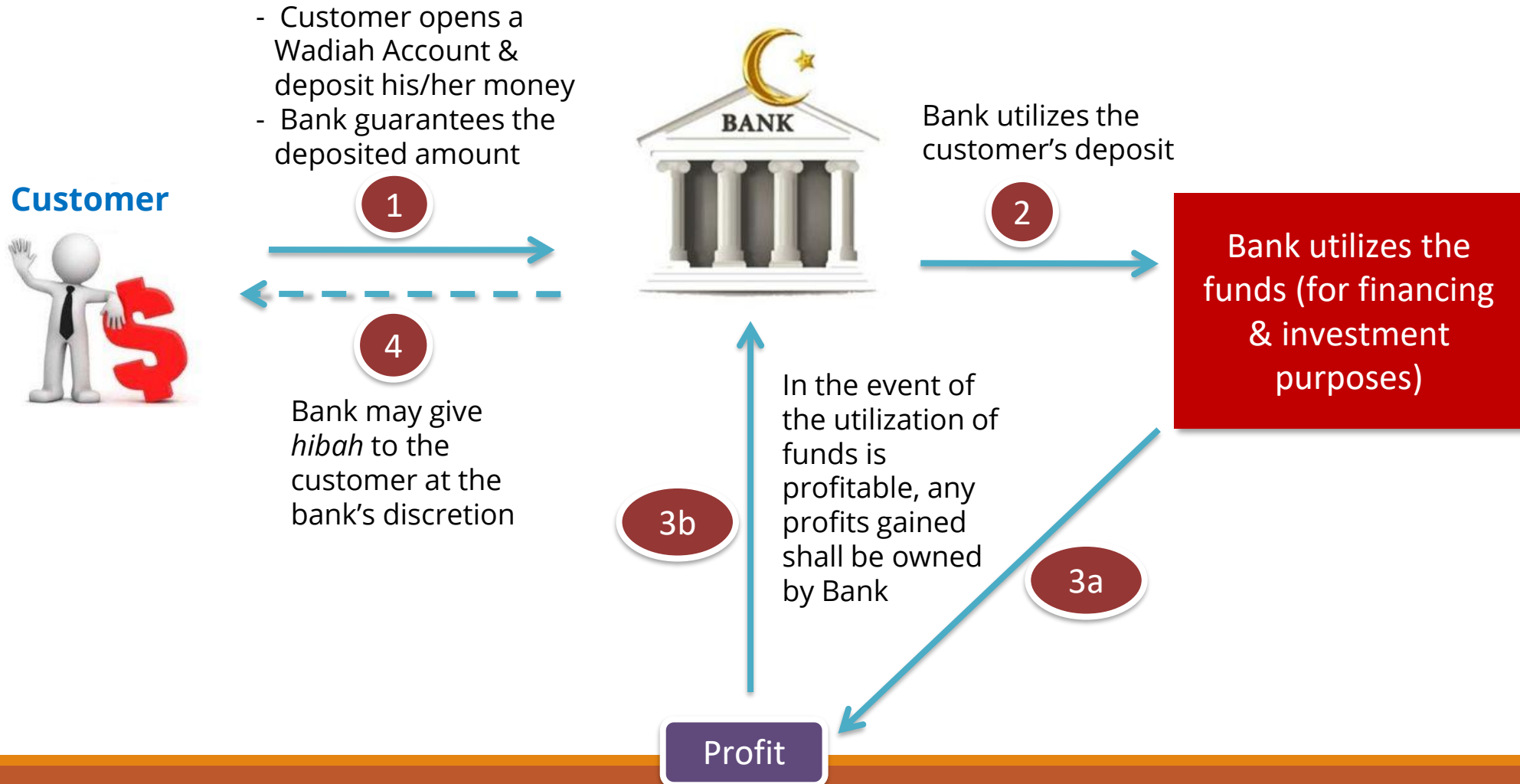


# ISLAMIC DEPOSIT & INVESTMENT PRODUCTS



# STRUCTURE OF ISLAMIC DEPOSIT PRODUCTS (1)

## Wadi'ah YD (Qard) products for CASA (Current Account/Savings Account)

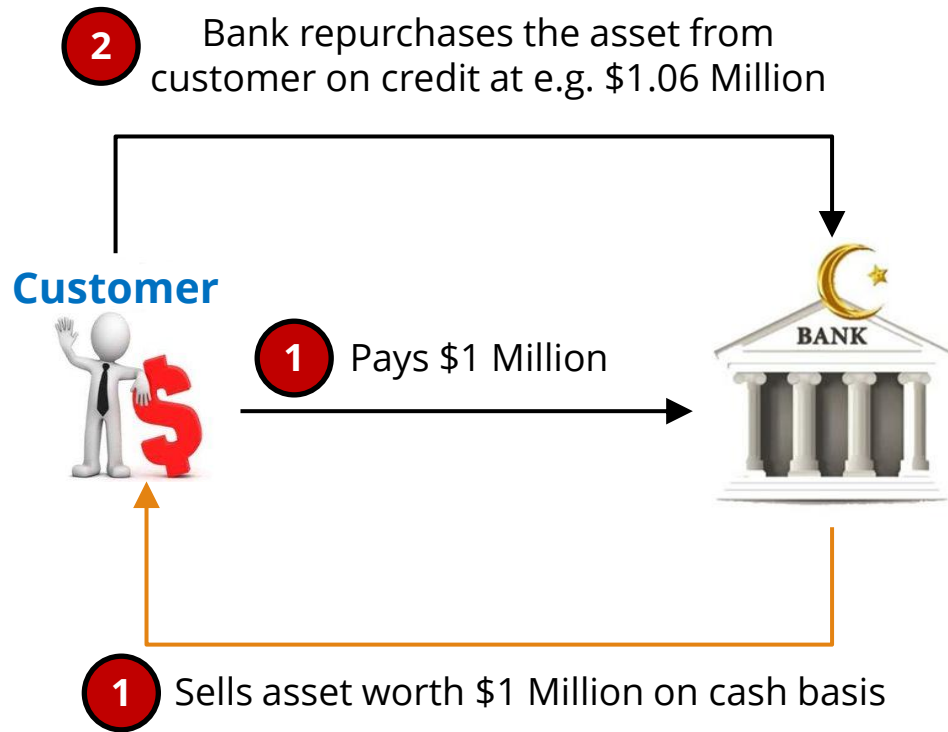


# STRUCTURE OF ISLAMIC DEPOSIT PRODUCTS (2)

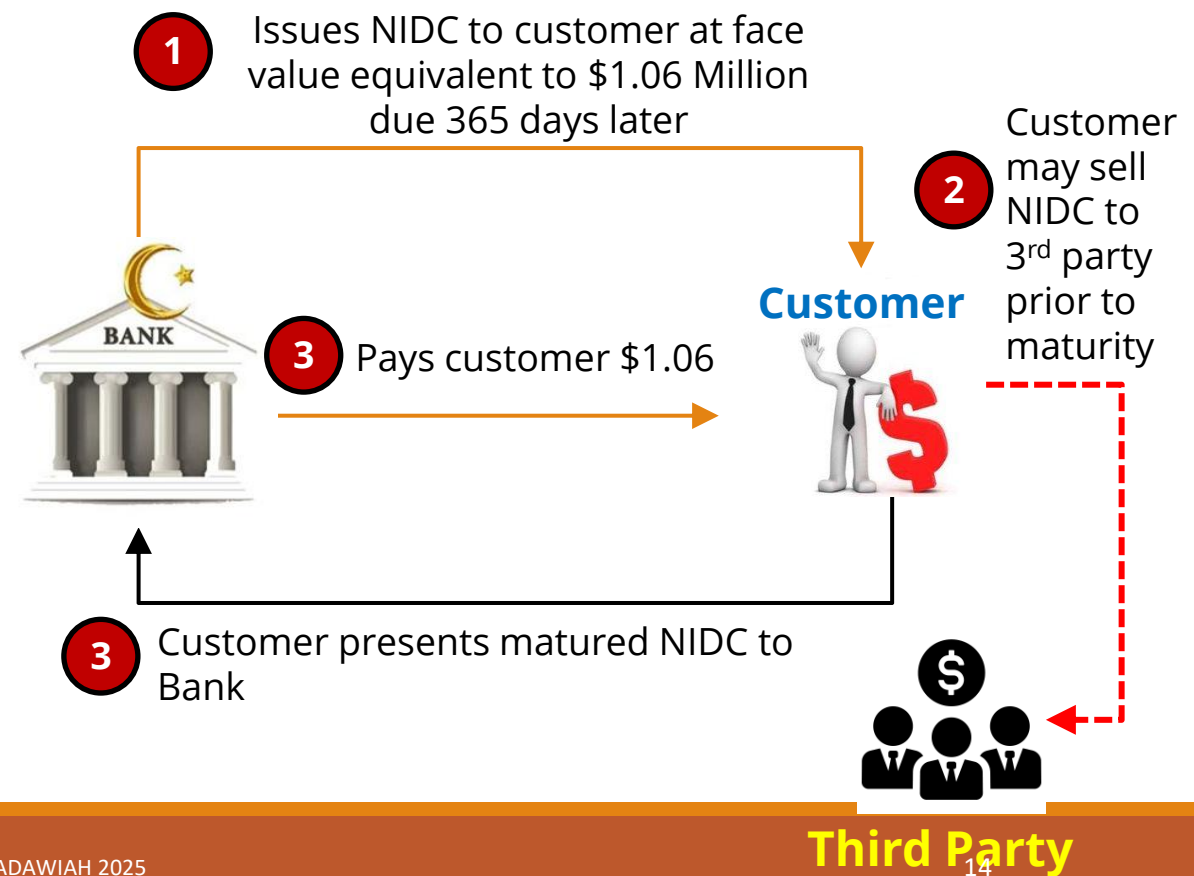
## NIDC (Negotiable Instrument of Debt Certificate)

Based on Bay' al Inah & Traded based on Bay' al Dayn

STEP 1



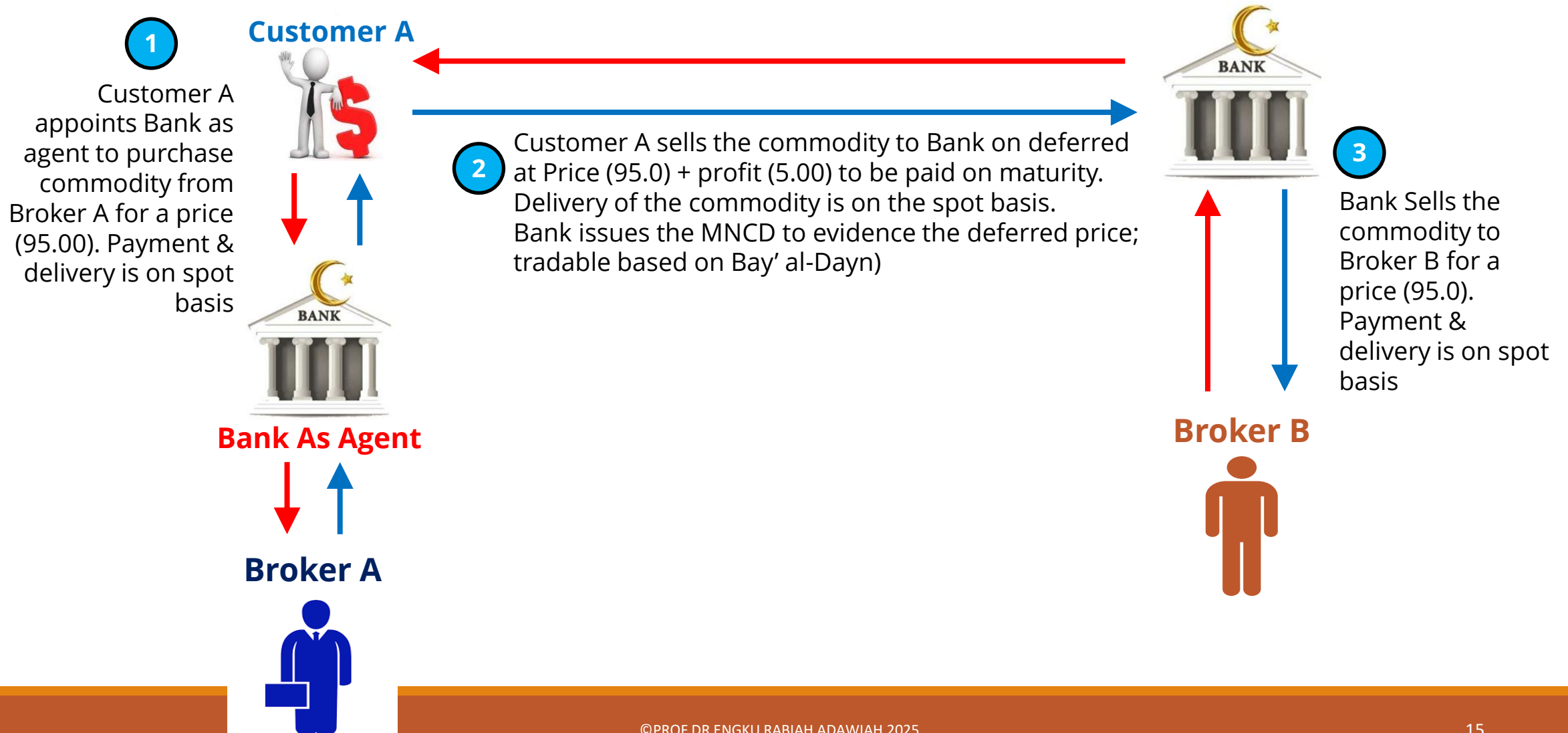
STEP 2



# STRUCTURE OF ISLAMIC DEPOSIT PRODUCTS (3)

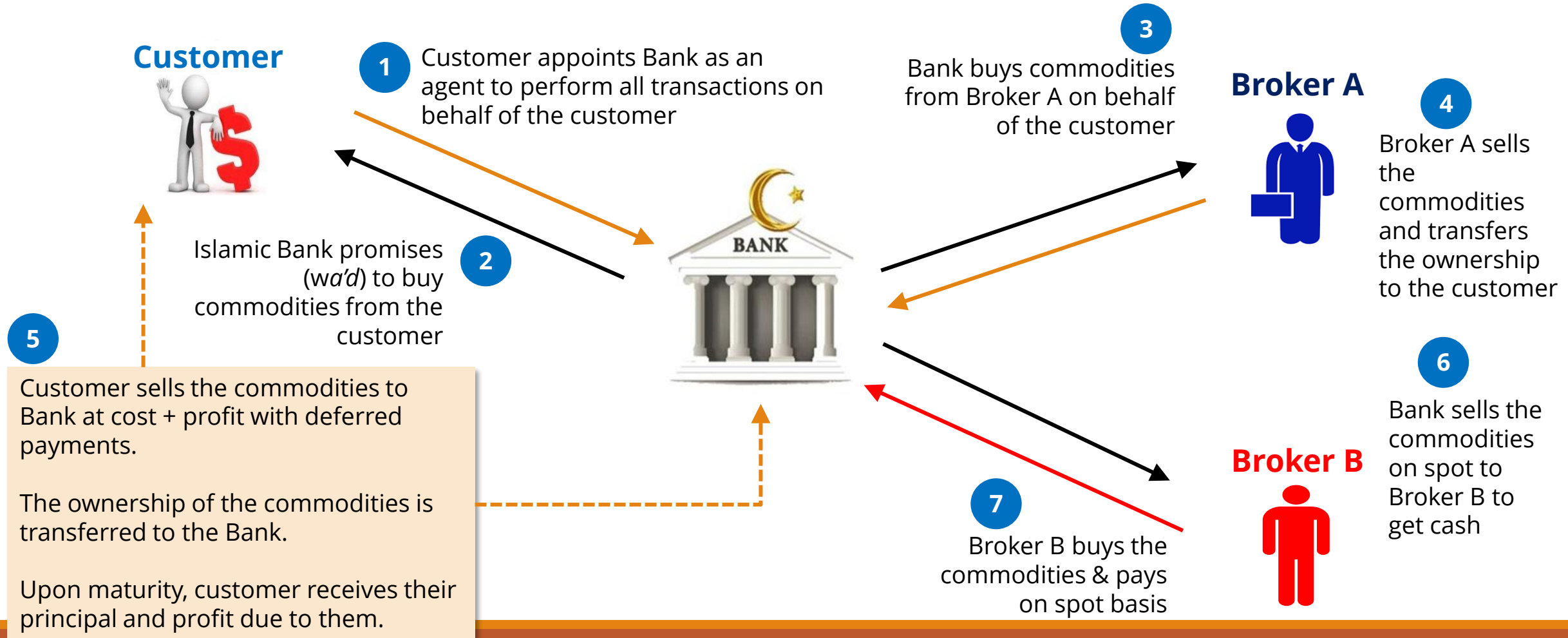
## MNCD (Murabahah Negotiable Certificate of Deposit)

Based on Commodity Murabahah & Traded based on Bay al Dayn; Fixed rate Basis



# STRUCTURE OF ISLAMIC DEPOSIT PRODUCTS (4)

## Commodity Murabahah Term Deposit Commodity Murabahah Deposit-i/ Fixed Deposit-i



# INVESTMENT ACCOUNTS USING MUDARABAH

RETAIL



Mudarabah General Investment Account



Mudarabah Special Investment Account

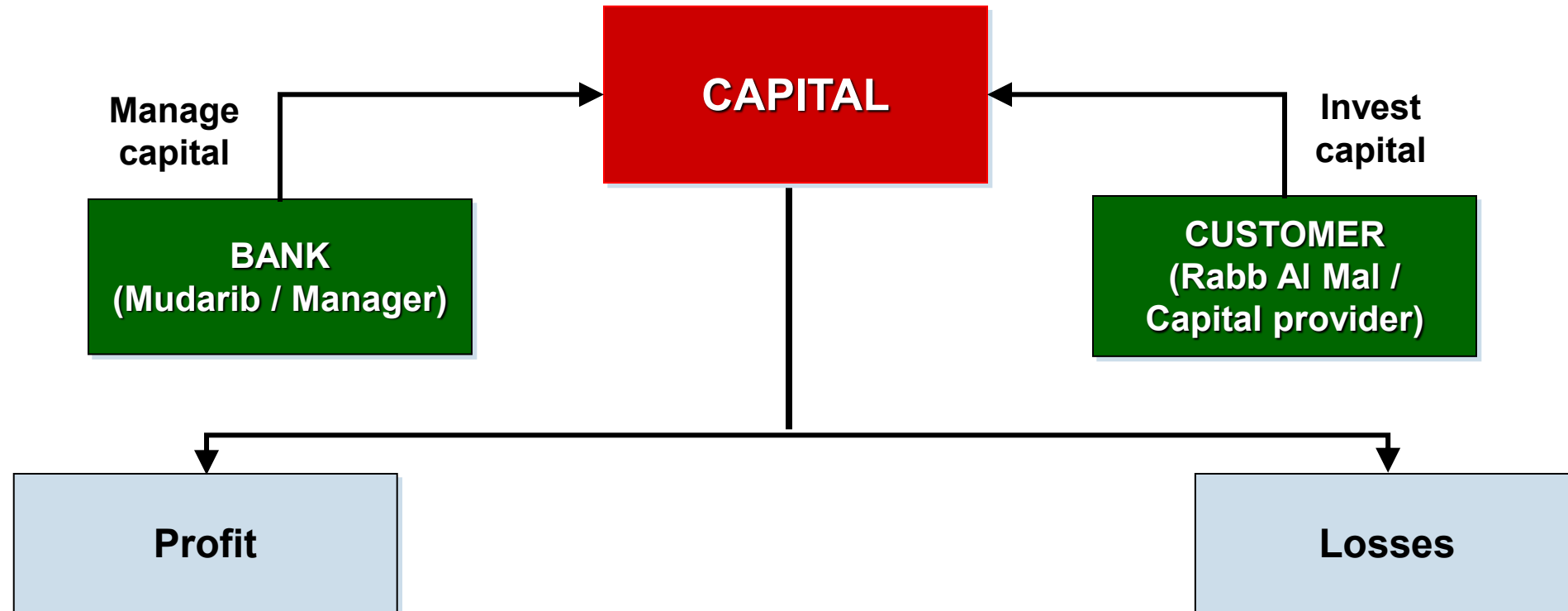


Islamic Instrument of Deposit



Mudarabah Inter-bank Placement

# MUDARABAH INVESTMENT ACCOUNT



- Shared between Bank + Investor according to a contractually agreed ratio
- Profit sharing cannot be a fixed amount/a fixed percentage of capital contribution

- Born solely by Investor
- Managing Bank will only be personally liable if the loss is caused by its negligence, mismanagement or breach of terms

# WAKALAH PLACEMENT

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Wakalah – Agency contract – Muwakkil (investing bank) appoints the investee bank (wakil) as their agent to invest in Shari`ah compliant transactions on behalf of the muwakkil.

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The investee bank as the wakil will notify the investing bank of the profits expected to be generated upon placement of funds.

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Any profits exceeding the quoted expected profits will be retained as an incentive by the investee bank.

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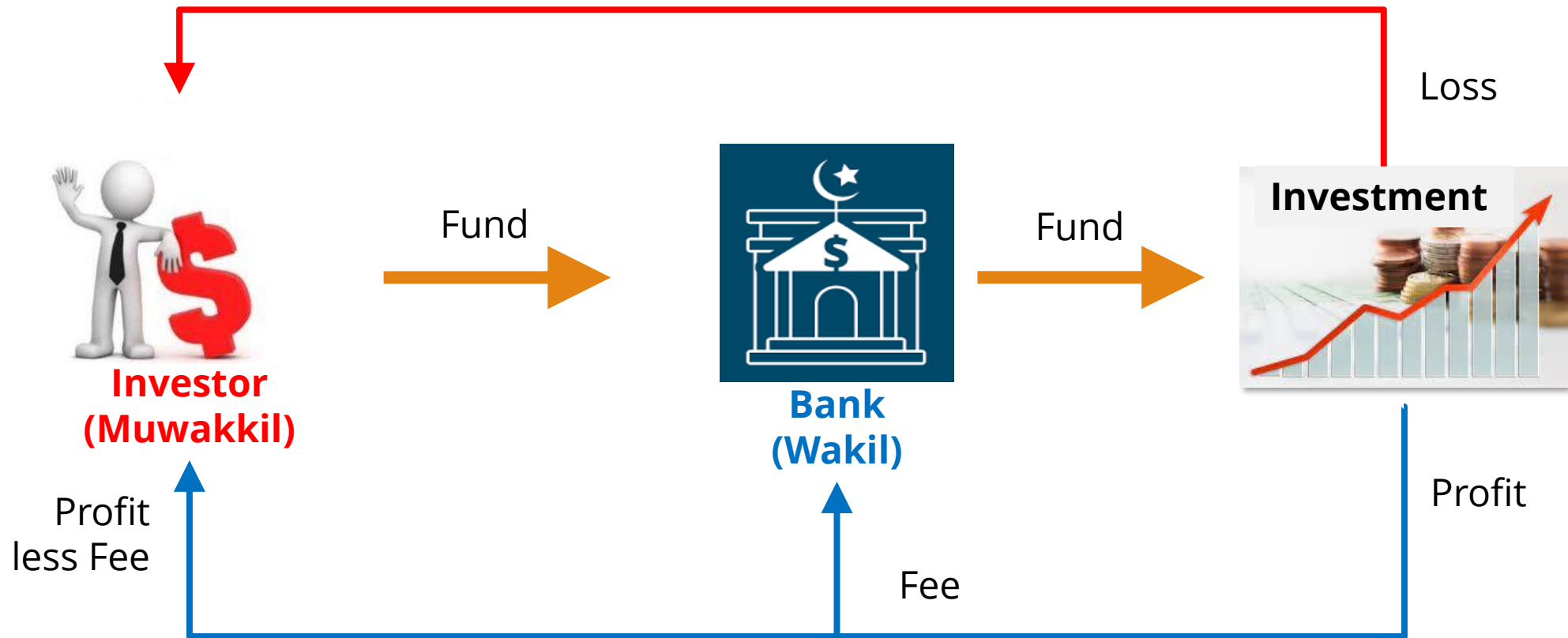
The investee bank is also entitled to draw an agency fee from the incentive obtained.

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The investing bank as principal shall bear all risks associated with the transactions except for those risks resulting from the investee bank's fraud or negligence.

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# WAKALAH PLACEMENT



# CONVENTIONAL REPOS

Owner of security (Investee) – sells security to a buyer (Investor) at an agreed price for a definite holding period

Investee agreed to buy back the security from the Investor at the end of the holding period at an agreed price

Transfer of title takes place but ownership is maintained  
Economic benefit is not transferred – Interest or dividend paid to original owner  
Mark to market & margin mechanism is allowed

Difference between buying price & selling price – represents interest income to Investor from the short term investment

# ISLAMIC REPO – ALTERNATIVE STRUCTURES?

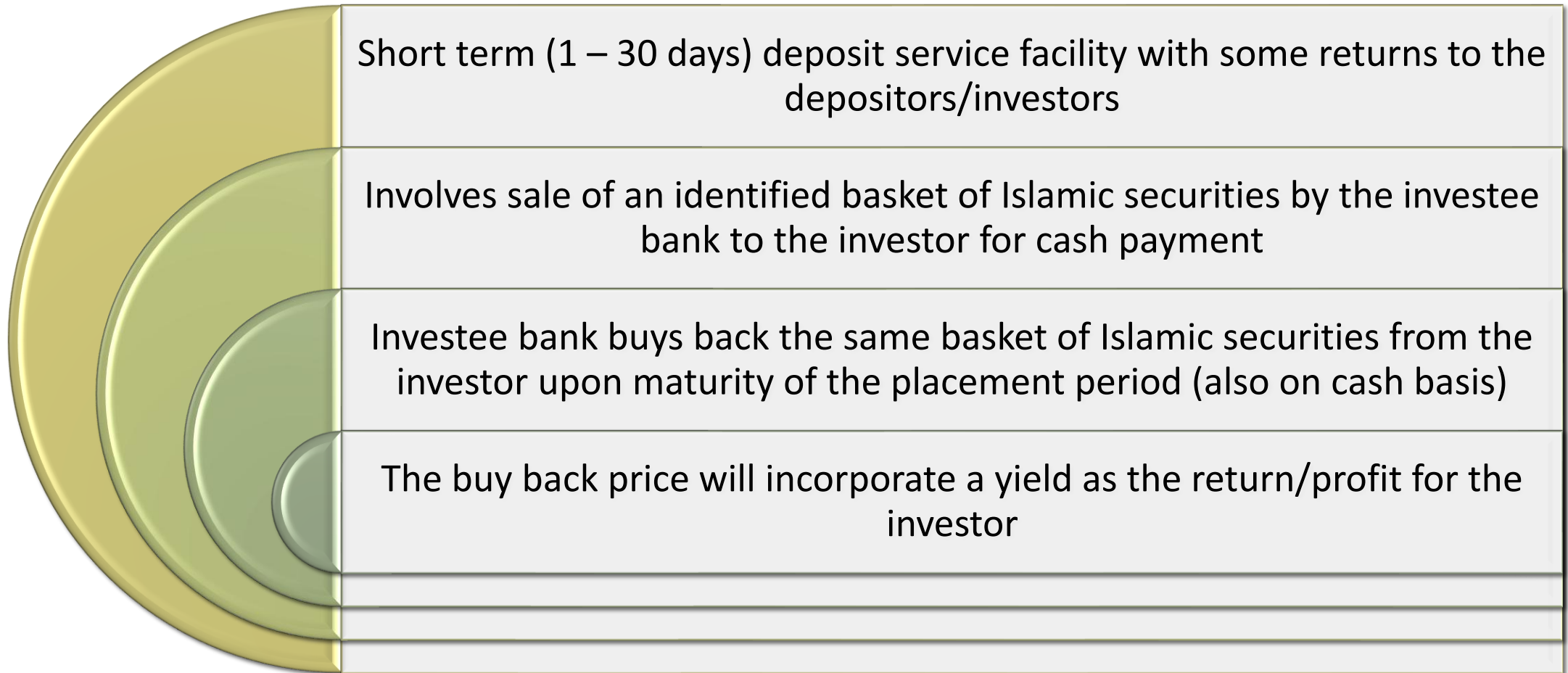


**Sale & Buy Back Arrangement (SBBA)**

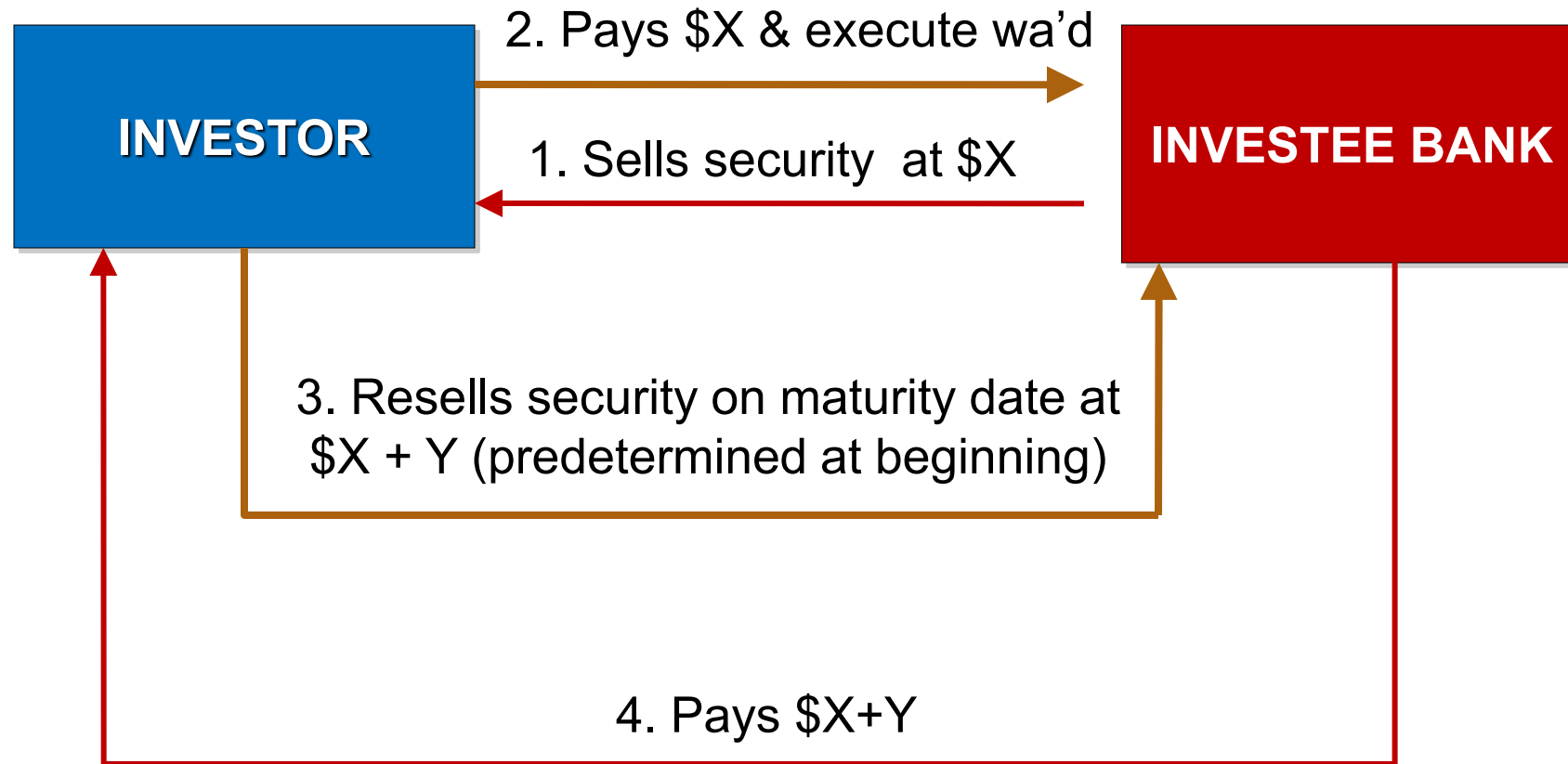


**Collateralized Commodity  
Murabahah (CCM)**

# SALE & BUY BACK ARRANGEMENTS (SBBA)



# ISLAMIC REPOS (SBBA)



# SBBA – SHARI`AH ISSUES

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SBBA uses sale & purchase contracts & must comply with the rules on sale

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If the securities are debt instruments, the sales (bay` al dayn) must be made on cash basis to avoid the occurrence of sale of debt for another debt (bay' al-kali bil kali)

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SBBA involves sale + wa`d (promise) to re-purchase (i`adah al shira'); and actual purchase is made upon maturity of placement

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SAC of BNM in 2000 made a resolution that wa`d in the SBBA is permissible, provided that the wa`d is not stipulated as a condition for the sale & purchase of the asset

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Is there bay` al `inah?

# COLLATERALIZED COMMODITY MURABAHAH (CCM)

Step 1: Bank A buys Commodities from Broker 1 against payment of the cash purchase price



Step 2: Bank A sells Commodities to Bank B against payment of a deferred purchase price (cost + profit)



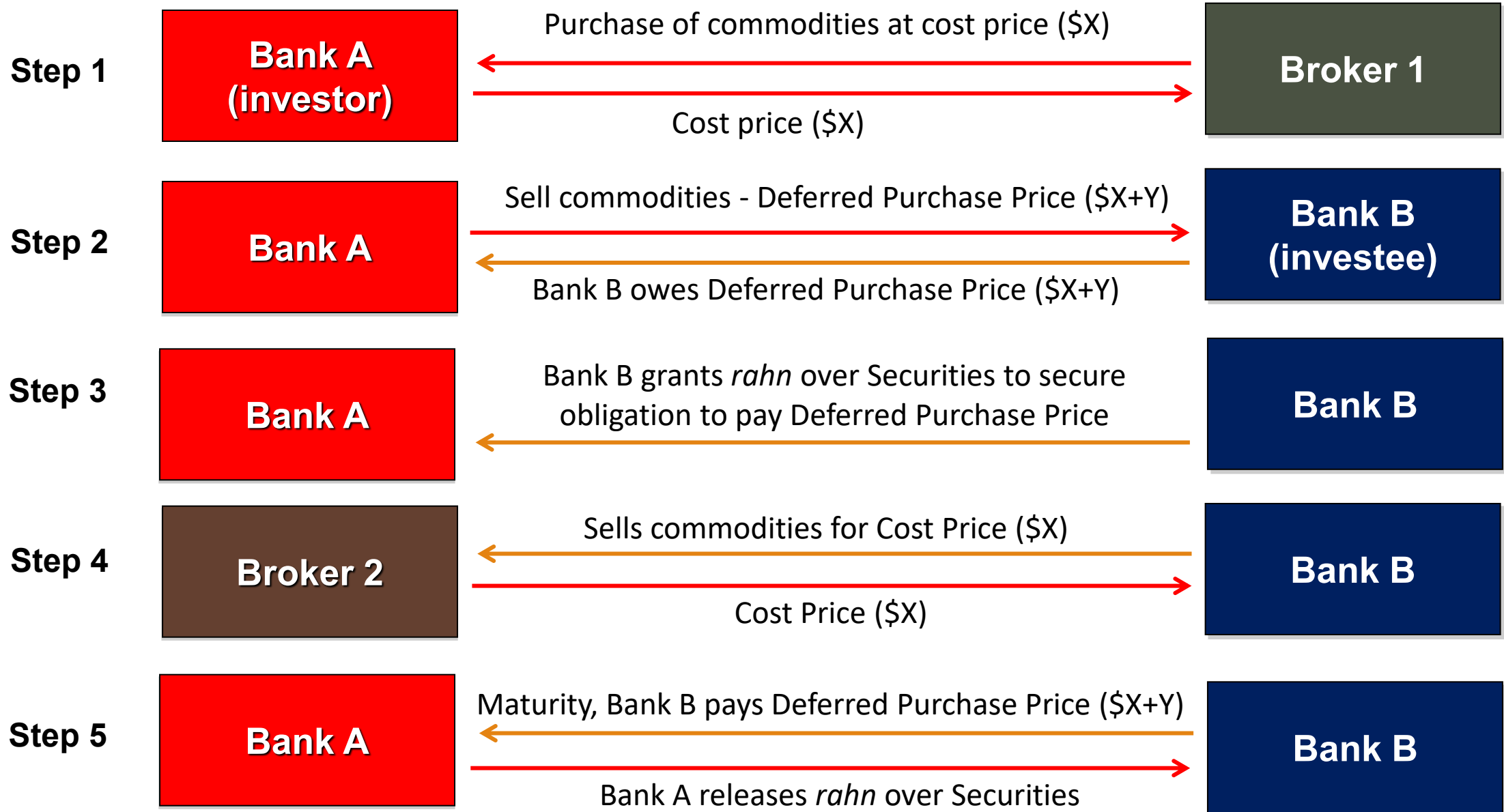
Step 3: As security for payment of Deferred Purchase Price, Bank B grants collateral (rahn) over securities held by it in favour of Bank A



Step 4: Bank B sells Commodities to Broker 2 against payment of the cash purchase price



Step 5: At "maturity", Bank B pays Deferred Purchase Price to Bank A & the security granted in favour of Bank A is released.



# BEHAVIOUR OF CCM

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Bank B pledges securities (sukuk) to Bank A as collateral (rahn) for deferred murabahah price

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The value of accepted securities (sukuk) must be in the acceptable range (e.g. 110%)

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If value of collateral is below threshold (+/- 5%, e.g. 105%), margin top up will be executed

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If collateral value is above the threshold, Bank B has the right to call collateral back

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Any return from the securities/sukuk (collateral) will be passed back to Bank B (as owner)

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# CCM IN MALAYSIA


CCM had been used in Malaysia by some IFIs



Most of the collaterals involved are scripless securities or financial instruments



Legal title of the collateral is transferred to Investor & recorded in custodian account through RENTAS system or other settlement system – to facilitate the right of Investor to liquidate the collateral in the event of default



Upon maturity, the debtor (investee) will settle the deferred payment obligation while the investor will return the collateral to the debtor

# SAC RESOLUTION IN 190<sup>TH</sup> MEETING (FEB 2019)

CCM which incorporate the concept of tawarruq (commodity murabahah) & rahn (pledge) is allowed subject to the following requirements:

- Transfer of collateral registration from pledgor (rahin) to pledgee (murtahin) is not a full ownership transfer as it only involves transfer of legal title while beneficial rights remain with pledgor
- Pledgor still assumes liability of the collateral and is entitled to the benefit arising from the asset;
- Pledgee has no right to sell the collateral to a third party except for the purpose of liquidation of the asset in event of default
- Pledgee has no right to pledge the collateral to a third party except with the consent of Pledgor
- Pledgee is obliged to return the collateral to Pledgor upon settlement of the debt arising from the CM transaction.

# ISLAMIC STRUCTURED PRODUCTS?

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Islamic structured product is the Shari`ah compliant version of the conventional structured product.

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Shares some similarities with its conventional counter-part, especially in terms of the purpose, economic benefits and basic structural features.

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Shari`ah compliant features – all contractual transactions constituting the product (e.g. securities & derivatives) must be free from any elements that are prohibited under Islamic legal rules e.g. riba, gharar etc.

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Interest rate linked, bond linked, currency linked and credit linked notes – generally, not acceptable due to the existence of riba reference asset

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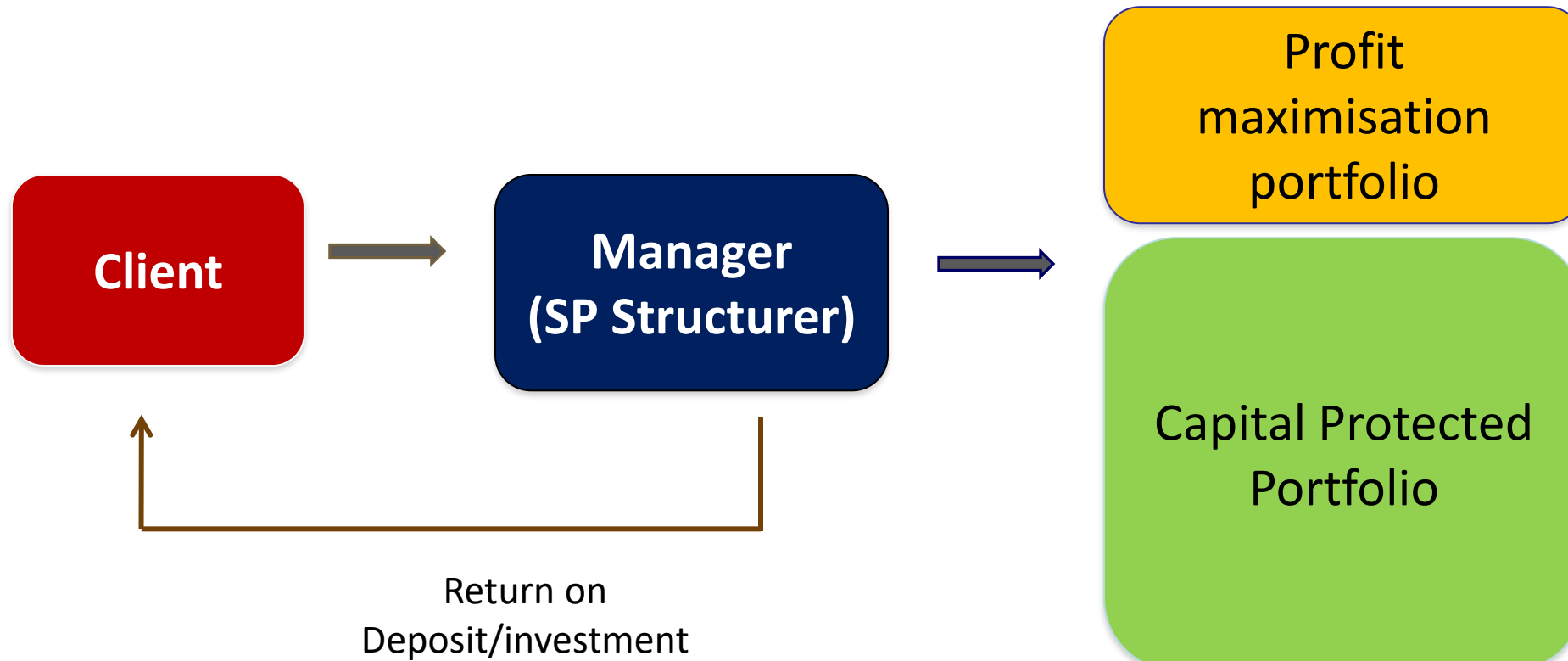
Equity linked & index linked notes may be acceptable provided that the underlying equities & indexes are Shari`ah approved and the derivative contract complies with Islamic rules

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Commodity linked notes may also be acceptable provided that the commodity and the contracts used in the derivative instruments comply with Islamic rules

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# BASIC MODEL OF ISLAMIC SP



# BUILDING BLOCKS IN STRUCTURING ISLAMIC SP

Avoiding the negative list

Observing the necessary & unique requirement as per contract used

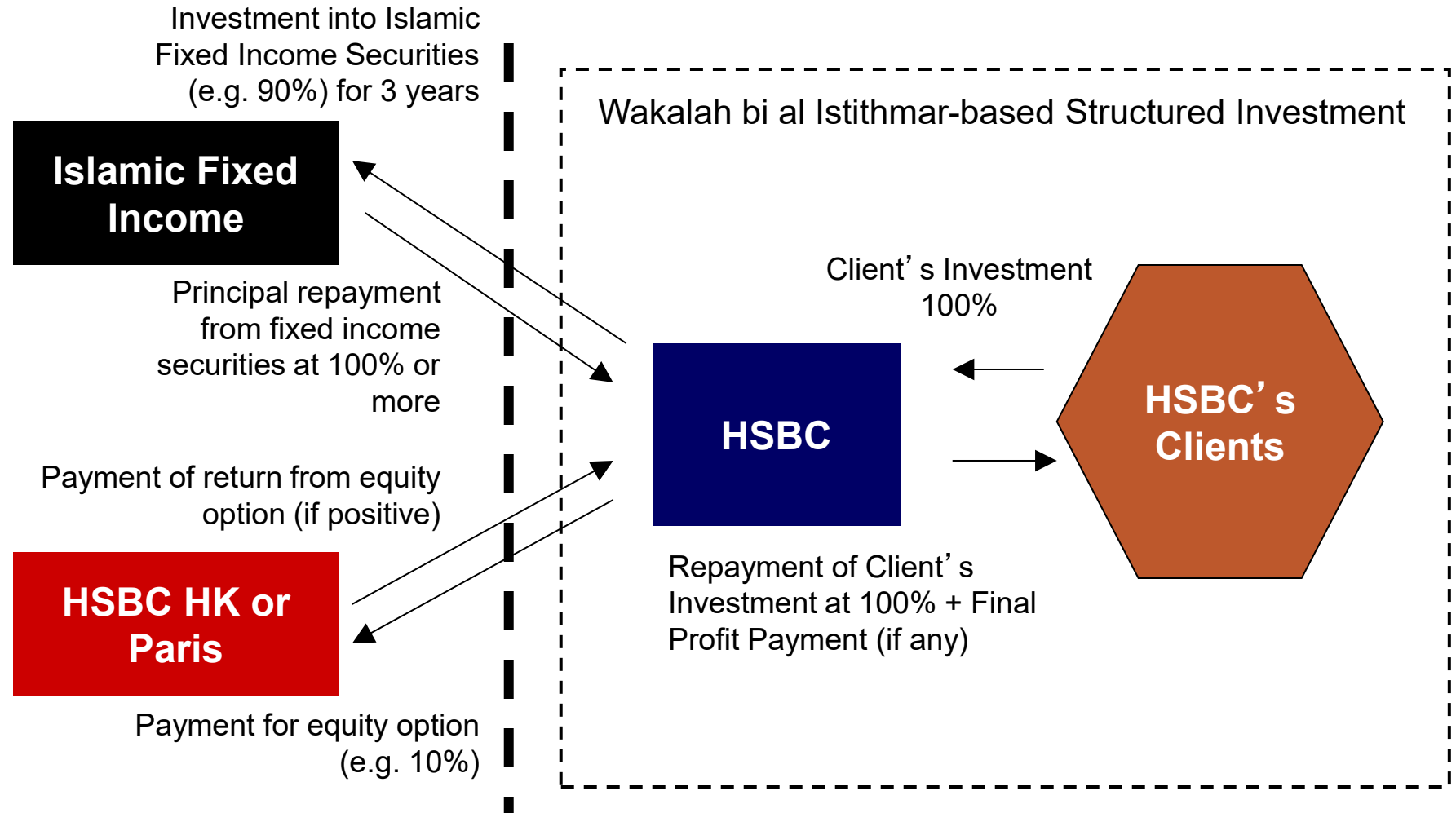
- At fund raising level: wakalah or mudarabah
- At activities level: Tawarruq (Commodity Murabahah), purchasing basket of share, “Islamic option” using wa’d or ‘urbun, etc

Capital protection, how it is achieved?

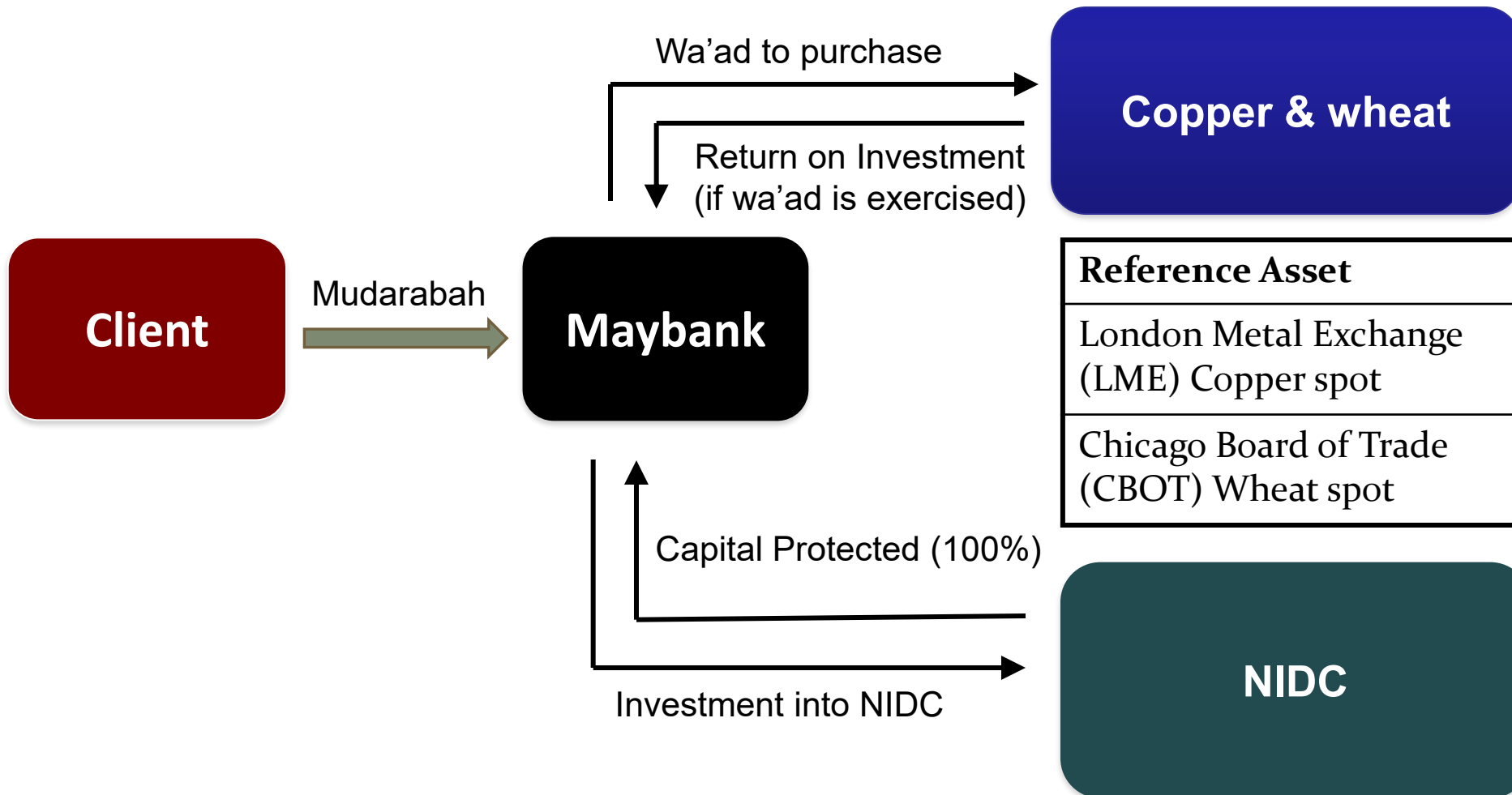
- Through portfolio management & balancing
- Third party guarantee

# HSBC AMANAH ISLAMIC EQUITY-LINKED STRUCTURED INVESTMENT-i

- Main Contracts uses:
- Wakalah bi al Istithmar
  - `Urbun



# MAYBANK STRUCTURED ISLAMIC DEPOSIT STRIDE-I





# ISLAMIC ASSET FINANCING

# ISLAMIC ASSET FINANCING

## SALE-BASED

Murabahah to  
Purchase Orderer  
(MPO)

Commodity  
Murabahah (CM)

Parallel / Back to  
Back Istisna'

## LEASE-BASED

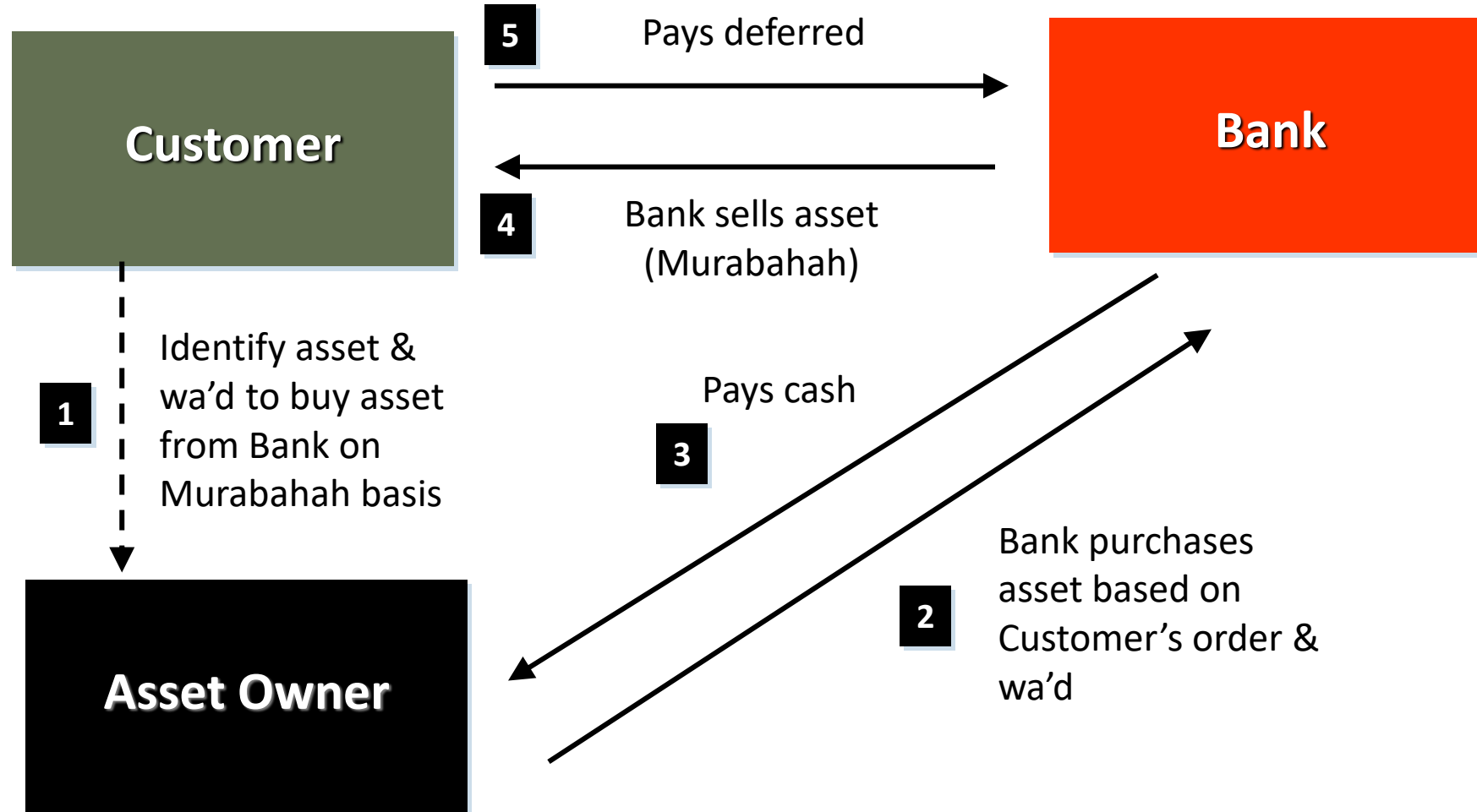
Ijarah Muntahiyah  
Bit Tamlik (IMBT) or  
Al Ijarah Thumma  
Al Bay` (AITAB)

## HYBRID

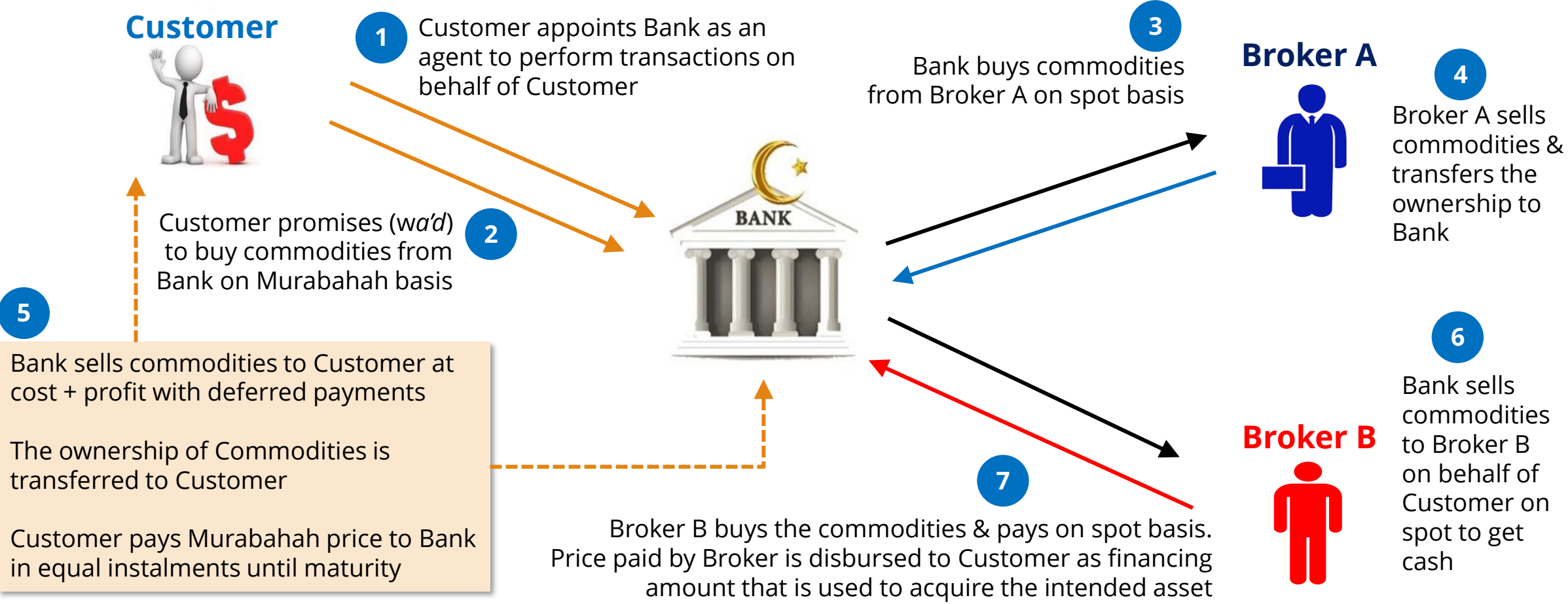
Istisna' – Ijarah or  
Reverse Parallel  
Istisna'

Musharakah  
Mutanaqisah (MM)

# MPO ASSET FINANCING (MURABAHAH LIL AMIRI BI AL SHIRA')



# COMMODITY MURABAHAH ASSET FINANCING



# PARALLEL / BACK TO BACK ISTISNA'



Subcontractor



4

Constructs the property by phases



3 Bank enters into 2<sup>nd</sup> Istisna' agreement with Subcontractor via Customer as agent to construct a property with the same details & specifications

5 Bank disburses cost of construction to Subcontractor progressively

6 The Customer pays periodic payment which consists of the cost of construction & profit to Bank

7 The property is delivered to Customer upon its completion & Customer continues paying the deferred Istisna' price until full settlement on maturity to Bank

1

Customer enters into 1<sup>st</sup> Istisna' agreement to appoint Bank as contractor to construct a property with deferred payment

2

Bank appoints Customer as its agent to find a subcontractor

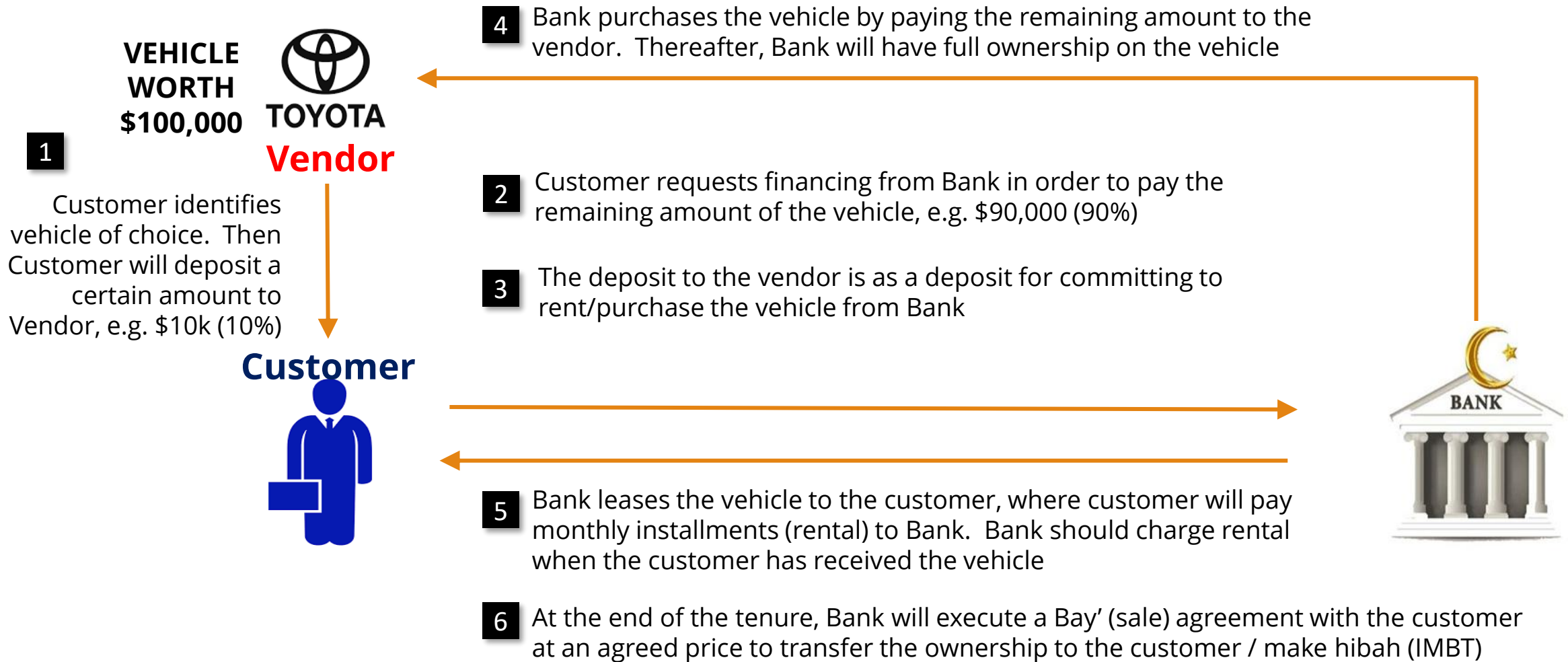
Customer



## Note:

Both istisna' must be independent / stand-alone, though, both are to construct a property with same specifications

# AL IJARAH THUMMA AL BAI' (AITAB) IJARAH MUNTAHIYAH BIT TAMLEEK (IMBT)



# ISTISNA' – IJARAH (REVERSE ISTISNA')

**Customer**



**2**  
Customer enters into 2<sup>nd</sup> Istisna' agreement with Bank to sell a property that the Customer will cause to be constructed with the same details & specifications & with progressive payment



**3**  
Bank enters into forward lease with Customer for future use of the property & Customer pays advance rental

**5**  
Bank pays cost of construction to Customer progressively

**1**  
Customer enters into 1<sup>st</sup> Istisna' agreement to ask contractor to construct a property with progressive payment

**6**  
Customer disburses cost of construction to Subcontractor progressively

**7**  
Property is delivered to Customer upon its completion. Forward lease converted to IMBT & Customer continues paying regular rental until maturity & Bank transfers ownership to Customer upon full recovery of its principal & profit (reflected in rental/purchase price)

**Contractor**



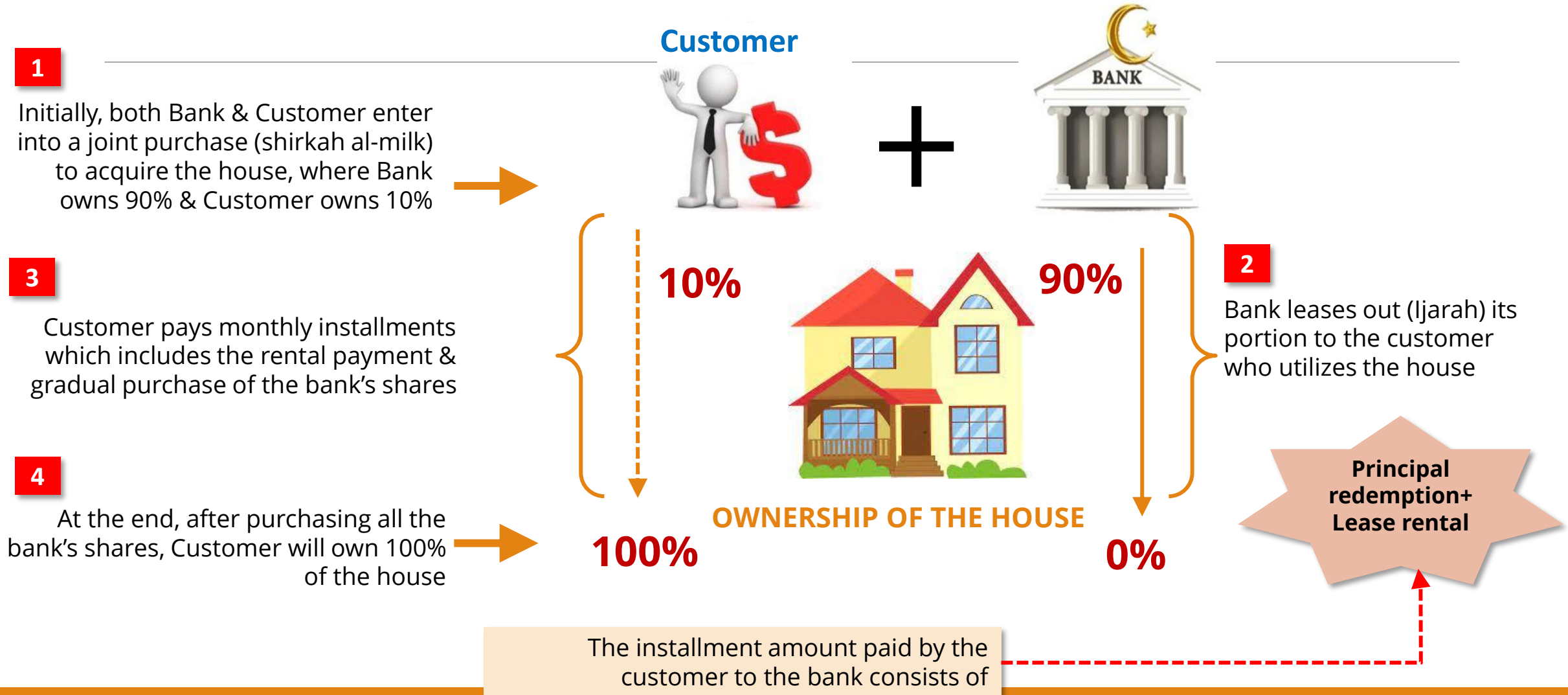
**4**  
Constructs the property by phases



**Note:**

Both istisna' must be independent / stand-alone, though, both are to construct a property with same specifications

# MUSHARAKAH MUTANAQISAH





# ISLAMIC CASH FINANCING

# ISLAMIC CASH FINANCING



## CREDIT CARD

- Bay' al `Inah
- Tawarruq
- Ujrah

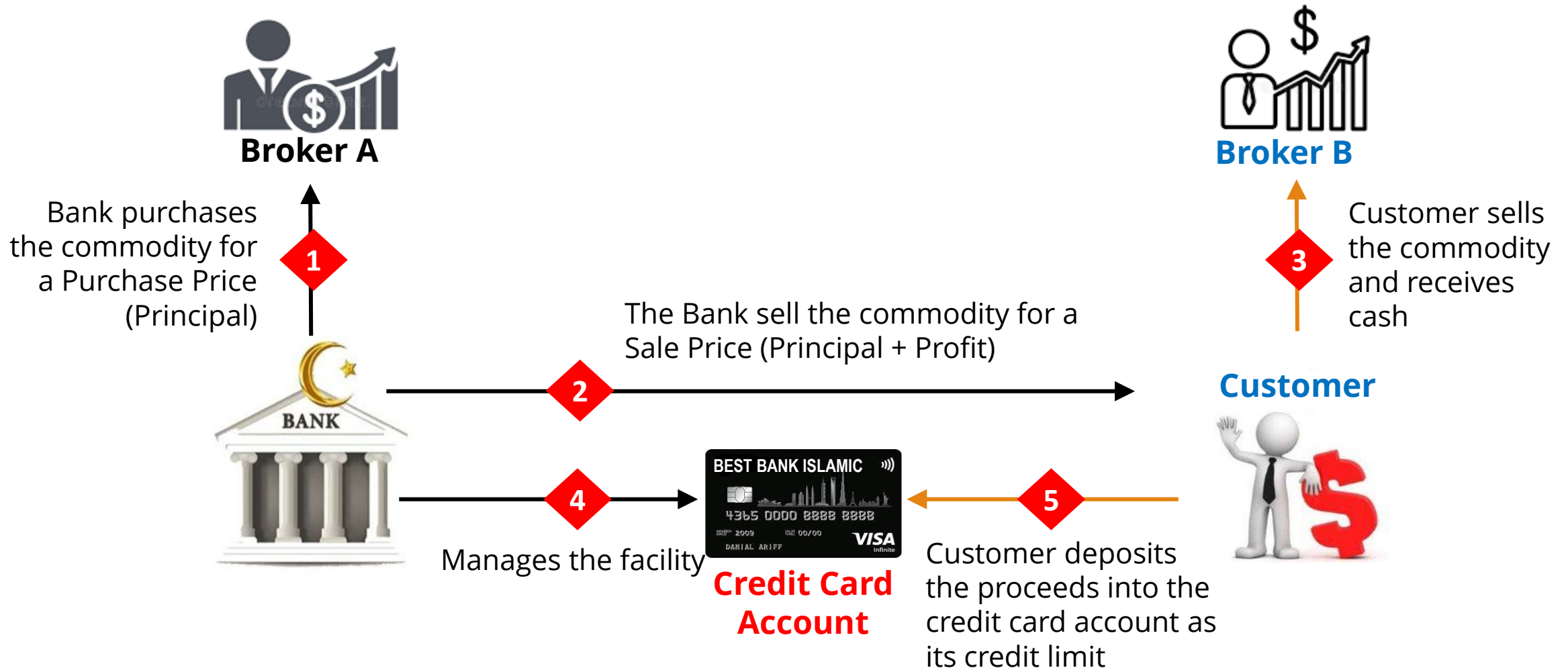


## PERSONAL FINANCING

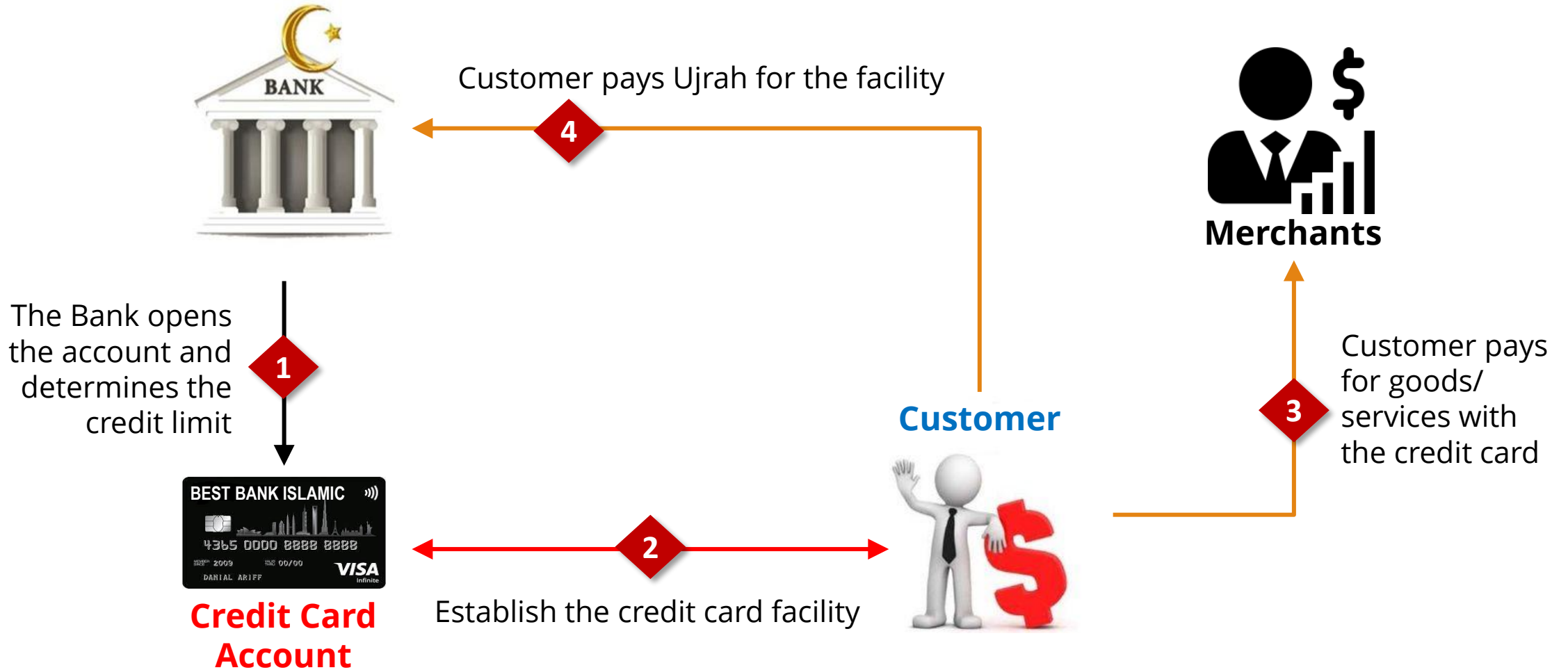
- Bay' al `Inah
- Tawarruq



# CREDIT CARD BASED ON TAWARRUQ



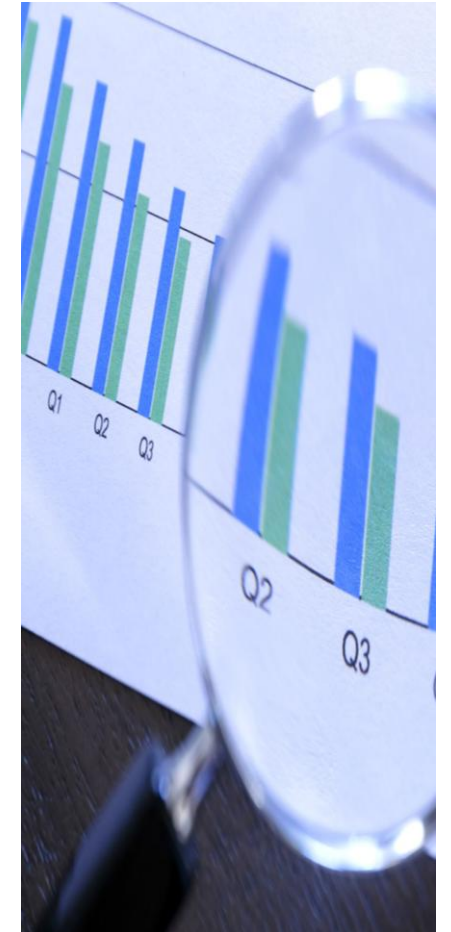
# CREDIT CARD BASED ON UJRAH



# RESOLUTION ON CREDIT CARD UJRAH

The SAC, in its 77<sup>th</sup> Meeting dated 3 July 2008 & 78<sup>th</sup> Meeting dated 30 July 2008, has resolved that the proposed credit card structured based on the concept of ujarah is permissible subject to the following conditions:

- i. IFIs shall ensure that the ujrah is imposed as a consideration for the provision of actual or non-fictitious services, benefits & privileges that are permissible under Shariah;
- ii. The imposition of different amount of ujarah on various types of credit cards that offer different kind of services, benefits & privileges is permissible;
- iii. The imposition of ujarah on the services, benefits & privileges which are not related to qard, deferment of debt & exchange of cash with cash at a different value is permissible; and
- iv. The imposition of ujarah on the services, benefits & privileges relating to qard, deferment of debt & exchange of cash with cash at a different value is not permissible. However, charges may be imposed to cover the actual management cost (nafaqah/taklufah).



# LATER SHARIAH RULINGS ON CREDIT CARD UJRAH (2023)

- The way ujrah is charged or is otherwise rebated, is correlated with the Customer's utilisation of the credit facility under the credit card
- This implies that the ujrah was actually related to the qard and deferment of debt under the credit card
- This will be tantamount to riba element and falls under one of the conditions in the earlier SAC resolution on credit card ujrah (in the preceding slide), i.e.:
  - “The imposition of ujrah on the services, benefits & privileges relating to qard, deferment of debt & exchange of cash with cash at a different value is not permissible.”
- As such IFIs are asked to propose alternatives to credit card ujrah





**Q & A**

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**Wassalamu alaykum warahmatullah**