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Islamic Banking Deposit Innovation Post-IFSA 2013: A Qualitative Analysis

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Abstract: This article aims to analyze the changes in the structure and operations of deposit products in Islamic banking following the enforcement of the Islamic Financial Services Act 2013 (IFSA). The stricter Shariah compliance requirements and regulations introduced by IFSA have affected how Islamic banking institutions classify and offer their deposit products. The main issue faced is how Islamic banking institutions can maintain the competitiveness of their deposit products while ensuring adherence to Shariah principles and strict regulatory requirements. The objective of this study is to identify the challenges and opportunities in Islamic deposit product innovation, as well as strategies that can be used to attract customer interest and enhance their understanding of these products. The methodology used in this study involves content analysis and semi-structured interviews with officers from Bank Islam and Bank Muamalat, two leading Islamic banking institutions in Malaysia. The findings show that there is an urgent need for innovation in Islamic deposit products, particularly in the use of Shariah contracts such as *wakalah* and *tawarruq*. The study also found that while there are challenges in ensuring Shariah compliance, there are significant opportunities to enhance the competitiveness of Islamic deposit products through more effective marketing strategies and improved customer understanding. This article provides an in-depth insight into the potential and obstacles in the development of Shariah-compliant Islamic deposit products, as well as recommendations for improvements in the operations and offerings of these products.

Keywords: Islamic Banking, Deposit Products, Wakalah, Tawarruq, Islamic Financial Services Act 2013, Shariah Compliance, Product Innovation.

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Abstrak: Makalah ini bertujuan untuk menganalisis perubahan dalam struktur dan operasi produk deposit di perbankan Islam selepas penguatkuasaan Akta Perkhidmatan Kewangan Islam 2013 (APKI). Keperluan pematuhan syariah yang lebih ketat dan pengawalseliaan yang diperkenalkan oleh APKI telah mempengaruhi cara institusi perbankan Islam mengklasifikasikan dan menawarkan produk deposit mereka. Permasalahan utama yang dihadapi adalah bagaimana institusi perbankan Islam dapat mengekalkan daya saing produk deposit mereka sambil memastikan pematuhan kepada prinsip syariah dan peraturan kawal selia yang ketat. Objektif kajian ini adalah untuk mengenal pasti cabaran dan peluang yang wujud dalam inovasi produk deposit Islam, serta strategi yang boleh digunakan untuk menarik minat pelanggan dan meningkatkan kefahaman mereka terhadap produk-produk ini. Metodologi yang digunakan dalam kajian ini melibatkan analisis kandungan dan temubual separa berstruktur dengan pegawai-pegawai dari Bank Islam dan Bank Muamalat, dua institusi perbankan Islam utama di Malaysia. Hasil kajian menunjukkan bahawa terdapat keperluan mendesak untuk inovasi dalam produk deposit Islam, terutamanya dalam penggunaan kontrak syariah seperti wakalah dan tawarruq. Kajian ini juga mendapati bahawa walaupun terdapat cabaran dalam memastikan pematuhan syariah, terdapat peluang besar untuk meningkatkan daya saing produk deposit Islam melalui strategi pemasaran yang lebih berkesan dan peningkatan kefahaman pelanggan. Artikel ini memberikan pandangan mendalam mengenai potensi dan halangan dalam pengembangan produk deposit Islam yang patuh syariah, serta cadangan untuk penambahbaikan dalam operasi dan penawaran produk tersebut.

Kata Kunci: Perbankan Islam, Produk Deposit, Wakalah, Tawarruq, Akta Perkhidmatan Kewangan Islam 2013, Pemantauan Syariah, Inovasi Produk.

Introduction

The development of Islamic banking in Malaysia began earlier compared to Indonesia, which was marked by the establishment of Bank Muamalat Indonesia (BMI) in 1992.¹ Islamic banking in Malaysia started with the establishment of Bank Islam Malaysia Berhad (Bank Islam) in 1983, then experienced further growth with the introduction of 'Islamic banking window' or interest-free banking that operated within the ambit of conventional banks in 1993. Following greater demand for Islamic banking services from the public at large, both locally and in the global financial markets,² and to ensure that Islamic

¹ Moh.Rasyid. 2021. Problematics of Implementation of the Mudhārabah Contract on Sharia Banking in Indonesia, *Journal of Islamic Law (JIL)*, Vol. 2, No. 1, 2021

² Yusmad, Muammar Arafat, Irwansyah, Syamsul Azizul Bin Marinsah, Mukhtaram Ayyub, and Muh. Shadri Kahar Muang. "Revitalization Supervision Islamic Banking in Enhancement Compliance in Indonesia and Malaysia." *Samarah: Jurnal Hukum Keluarga dan Hukum Islam*, Vol 8, No. 1 (2024).

banking product and services offered are not merely 'interest-free', the central bank had promoted for the 'window' to be converted into full-fledged Islamic banking subsidiaries starting 2002.

This development in the Islamic banking landscape has led to the need for a more comprehensive regulatory regime to ensure strong governance and robust risk management systems that protect the interests of shareholders and customers. In this regard, the enforcement of IFSA 2013 marked a significant turning point in Malaysia's Islamic banking landscape, differing from the approach in Aceh, Indonesia, where the implementation of Qanun No. 11/2018³ has mandated all residents including non-Muslims to use Sharia banking services without creating conflicts with their beliefs or civil rights.⁴

IFSA 2013 was introduced to provide a stronger and more comprehensive legal framework for regulating Islamic financial institutions, ensuring end-to-end *Shariah* compliance, and enhancing the stability of the Islamic financial system. Prior to the enforcement of IFSA 2013, Islamic banking institutions in Malaysia operated under the Islamic Banking Act 1983 (IBA), which placed less emphasis on a clear distinction between deposit and investment accounts, but rather focused on licensing requirements and its administrative matters. As a consequence, financial institutions applied *Shariah* contracts like *mudarabah* and *wakalah* as underlying principles in structuring their deposit products. *Mudarabah* which is a profit-sharing arrangement in nature and *wakalah* that referred to agency arrangement are not compatible as deposit features that is principal guaranteed. With the introduction of IFSA 2013, Islamic banking institutions are now required to classify their products more accurately based on the *Shariah* contracts used, such as *wakalah* and *tawarruq*, leading to significant changes in the structure and operations of deposit products.

This study aims to analyse the impact of IFSA's enforcement on deposit products in Islamic banking, with a focus on the challenges and opportunities that arise in efforts to maintain the competitiveness of these products. In the context of Islamic banking in Malaysia, this study is important as it not only helps to understand the changes occurring in the industry but also provides guidance for Islamic banking institutions to adapt to new regulations while ensuring their products remain appealing to customers. By examining effective innovation and marketing strategies, this study seeks to support the development of *Shariah*-

³ Nurhisam, Luqman, Nahara Eriyanti, Mundakir, Fadillah Mursid, and Juhrotul Khulwah. "Sharia Banking Syndicated Financing in The Context of Funding Strategic Projects after Islamic Financial Qanun Institution in Aceh." *Samarah: Jurnal Hukum Keluarga dan Hukum Islam* Vol 8, no. 3 (2024).

⁴ Alidar, EMK, Muhammad Maulana, Arroyyan Ramly, and Nadhilah Filzah. "The Shared Values of Sharia Banking: Non-Muslims Under The Qanun on Islamic Financial Institutons in Aceh." *AHKAM* 24, no. 1 (2024): 188. <https://doi.org/10.15408/ajis.v24i1.39188>.

compliant Islamic deposit products that are competitive in the global financial market.

Islamic Banking

The setting up of Bank Islam in 1983 marked a formation of a banking system that operates in accordance with the Islamic law (Shariah). The bank was set up with the aim to provide financial services to muslim community that are compliant with Islamic principles, which prohibit interest (*riba*) and promote ethical investments. Over the years, Malaysia has made positive achievement in developing a robust Islamic banking sector with the conversion of interest-free banking into full-fledged Islamic subsidiaries of the conventional banking institutions, and further supported with the emergence of locally incorporated foreign Islamic banks beginning 2005.⁵

The growth in Islamic banking sector called for a comprehensive and vigorous regulatory and governance structure, hence the IFSA 2013 was enacted and repealed the IBA. The enactment of IFSA 2013 also manifested the regulators emphasize on the significance supervision over Islamic banking activities and operations to ensure shariah complaint of all business aspects. Notwithstanding, the introduction of IFSA 2013 has material implication on the operations of Islamic banking particularly related to the deposit products. IFSA required Islamic banks to have a clear distinction for funds place by customers as deposits and investment accounts. Deposit products shall be risk-free wherein customers entrusted Islamic banks to safekeep the funds on their behalf, while investment account is subject to capital loss and neither protected nor guaranteed. There are no obligations for Islamic banks to return the funds in full or to pay any return, instead the profits and losses are to be shared.⁶

The central bank had also introduced Investment Account policy pursuant to the IFSA 2013 to provide greater avenue for Islamic banks to apply true sale in banking commercial transactions and flexibility in terms of investment criteria. In this respect, Islamic banks are expected to introduce a new structure for investment accounts, which reflects the actual performance of the underlying asset or economic activities. In contrary, the Islamic banking industry had reacted otherwise in which their focus had skewed toward changing the contract of the existing deposit products to commodity *murabahah* as evident by 70% exposures to this contract post enactment of IFSA 2013, as against 22% exposure prior to that.⁷

⁵ Mohamed Ariff, Islamic Banking in Malaysia: The Changing Landscape. Institutions and Economies Vol. 9, No. 2, April 2017, p.1-13

⁶ Bank Negara Malaysia. 2014. *Transition Policy under Islamic Financial Services Act 2013 (IFSA)*.

⁷ Mastura Mohd Shafie, Mat Noor Mat Zain & Nik Abdul Rahim Nik Abdul Ghani, Commodity Murabahah Deposits in Islamic Banking: An Easy Way Out in ISLĀMIYYĀT Vol. 42 (1) 2020, p. 15 – 22

Furthermore, as the investment accounts policy stated that: “The Islamic financial institutions must ensure that the investment account is structured based on the application of Shariah contract(s), including such arrangement which does not create an obligation on the Islamic financial institutions to repay in full, the money accepted from the investment account holder, e.g. *Mudharabah*, *Musharakah* or *Wakalah*”, the Islamic banks shall attempt and take opportunity for products innovation. Innovative and creative in product structuring, while maintaining shariah compliant, is vital to mitigate the withdrawal risk of the investment funds by the investors as a consequence of non-guarantee features and high risk nature of investment products.

Consequently, despite that IFSA 2013 has provided greater clarity in terms of legal and regulatory requirements that shall promote the consumer confidence towards the Islamic banking products and services, the study on performance of investment accounts and deposit products in the market indicated that the investment products are less taken as compared to deposit products. The very low volume of investment vis-a-vis the deposit volumes can be attributed to many reasons. Among the reason includes customer’s unwillingness to take risks, lack of knowledge or inadequate information on the investment products in the market.⁸

Research background and problem statement

The enforcement of the IFSA 2013 has brought significant changes to the Islamic banking landscape in Malaysia. Prior to the introduction of IFSA, Islamic banking institutions operated under the Islamic Banking Act 1983, which did not place sufficient emphasis on the separation between deposit and investment products. The Act introduced stricter *Shariah* compliance and regulatory requirements, aimed at ensuring the stability of the Islamic financial system and enhancing customer confidence in Islamic banking institutions.⁹ One of the key changes introduced by IFSA is the reclassification of deposit and investment accounts based on the *Shariah* contracts used, such as *wakalah* and *tawarruq*. This means that products that do not guarantee capital, such as those based on *mudharabah* and *wakalah* contracts, must be categorized as investment accounts rather than deposits.¹⁰

⁸ Zaki Ahmad, Md Mahfujur Rahman & Issa Khan, An Insight into Investment and Deposit Products Offered by Islamic Banks in Malaysia. *Al-Hikmah International Journal for Islamic Studies & Human Sciences*, 2023.

⁹ Abdul Ghafar Ismail, Nik Abdul Rahim Nik Abdul Ghani, and Mat Nor Mat Zain, Tawarruq time deposit with wakalah principle: an option that triggers new issues *International Journal of Islamic and Middle Eastern finance and management*. - Vol. 9. 2016, 3, p. 388-396

¹⁰ Mastura Mohd Shafie, Mat Noor Mat Zain & Nik Abdul Rahim Nik Abdul Ghani, Commodity Murabahah Deposits in Islamic Banking: An Easy Way Out in *ISLĀMIYYĀT* 42(1) 2020, p. 15 – 22 (<https://doi.org/10.17576/islamiyyat-2020-4201-02>)

These stricter *Shariah* compliance requirements demand that Islamic banking institutions adjust their product structures to comply with the new regulations. Islamic banking institutions must now ensure that all products offered align with *Shariah* principles, which prohibit capital guarantees in investment accounts. This poses a major challenge for Islamic banking institutions, which must find ways to offer products that are appealing to customers while complying with *Shariah* requirements. Customers often prefer products with capital guarantees, and this requires Islamic banking institutions to develop effective marketing strategies to attract and retain customers in this new regulatory environment.

The main issue faced by Islamic banking institutions is how to maintain the competitiveness of their deposit products while ensuring compliance with *Shariah* principles and strict regulatory requirements. Islamic banking institutions face challenges in improving customer understanding of the differences between deposit and investment products. This is important because customers need to understand that investment products do not guarantee capital, unlike guaranteed deposit products. The need for innovation in Islamic deposit products is urgent, and Islamic banking institutions must develop products that are not only *Shariah*-compliant but also competitive in an increasingly competitive financial market.

In addition, Islamic banking institutions must ensure that they have the necessary infrastructure and internal controls to support the offering of these products. This includes ensuring that information technology systems and legal terms in related product documents align with the requirements of this new Act. Non-compliance with the Act's requirements and regulatory rules could expose banks to penalties or business license revocation. Therefore, Islamic banking institutions must ensure that they have effective risk management systems in place to address the risks associated with investment products.

In facing these challenges, Islamic banking institutions need to develop effective marketing strategies to attract and retain customers. This includes enhancing customer understanding of Islamic deposit products and ensuring that the products offered are competitive in the global financial market. Islamic banking institutions also need to ensure that they have qualified and knowledgeable personnel in the field of Islamic banking to support the offering of these products. This is crucial, as a lack of qualified personnel in this field could affect the ability of Islamic banking institutions to offer *Shariah*-compliant and competitive products.

Overall, the enforcement of IFSA has brought both challenges and opportunities for Islamic banking institutions in Malaysia. Islamic banking institutions must adapt to these new regulations and ensure that the products offered align with *Shariah* principles. This requires innovation in Islamic deposit products and the development of effective marketing strategies to attract and retain customers. By ensuring compliance with *Shariah* and regulatory

requirements, Islamic banking institutions can enhance the competitiveness of their deposit products and support the growth of the Islamic financial industry in Malaysia.

The study employs a qualitative research design to gain in-depth insights into the operational changes and innovations in deposit products within Islamic banking institutions following the enforcement of IFSA 2013. A set of pre-prepared questionnaires was developed that serves as a guide in the interview process with prospective respondents in order to ensure relevant and adequate data are obtained. In relation to this, semi-structured interviews were conducted with the key stakeholders in Islamic banking institutions, including product development officers, compliance officers, and Shariah committee members. These interviews aim to gather detailed information on how deposit products have evolved and the challenges faced in ensuring Shariah compliance.

The semi-structured interview method is considered as a flexible approach that enable researcher to explore further with follow-up queries into certain areas, following the feedback provided by the respondents during interview session. This is in view that this study intend to assess the opportunities and challenges in product innovation subsequent to the enactment of IFSA, as the readily available data or information are limited.

Further more, some relevant documents were analysed such as financial statements, product disclosure sheets, and internal policy documents from Islamic banks. This analysis helps to understand the structural changes in deposit products and the application of Shariah contracts like *wakalah* and *tawarruq*. In terms of sampling, the study used purposive sampling by selecting participants who have direct experience and knowledge of product development and regulatory compliance in Islamic banking. This includes representatives from major Islamic banks such as Bank Islam Malaysia Berhad and Bank Muamalat. The study used thematic analysis to identify and interpret patterns and themes within the qualitative data. This involves coding the data and organizing it into themes related to product innovation, regulatory challenges, and opportunities for growth. Finally, the study validated findings through triangulation by comparing data from interviews and document analysis to ensure consistency and reliability.

Analysis of the finding

This section will delve into three key themes that encapsulate the core challenges and opportunities faced by Islamic banking in the wake of the Islamic Financial Services Act 2013 as follows:

Regulatory Impact and Compliance Challenges

The enforcement of IFSA 2013 marked a significant shift in the regulatory framework, necessitating a clear distinction between guaranteed deposits and investment accounts, a requirement that was not present under the previous IBA.

This reclassification has introduced a range of compliance challenges and operational hurdles for Islamic banks.

Under IFSA 2013, Islamic banks are required to reclassify their deposit products into either guaranteed deposits or investment accounts based on the Shariah contracts applied in the product structure, which was a significant departure from the more general definitions allowed under the IBA.¹¹ The contract is indeed a unique element that distinguishes Islamic banks from interest-based banks, as these Shariah contracts aim to create commitments that give rise to corresponding obligations, rights and duties, whether they are contracts creating obligations, modifying them, or transmitting their effects. The new regulatory framework mandates that products with guaranteed principal amounts be classified as deposits, while those without such guarantees are to be classified as investment accounts. This distinction is crucial for ensuring that Islamic banking products align with Shariah principles and regulatory requirements.

To comply with the new regulatory requirements, Islamic banks have increasingly adopted contracts such as *tawarruq*, also known as *commodity murabahah*. *Murabahah* refers to selling a product on a cost-plus-profit basis.¹² These contracts provide a Shariah-compliant alternative that meets the regulatory demands of IFSA 2013. For instance, *tawarruq* has become a popular choice due to its ability to facilitate liquidity management while adhering to *Shariah* principles¹³. However, the adoption of these contracts is not without challenges. Banks must navigate the complexities of these contracts, ensuring that they are implemented in a manner that is both compliant with *Shariah* and operationally feasible.¹⁴

The compliance demands imposed by IFSA 2013 are stringent, requiring Islamic banks to overhaul their operational processes to ensure adherence to the new regulatory framework. This includes revising product structures, updating legal documentation, and implementing robust risk management practices.¹⁵ The transition to the new regulatory environment has necessitated significant

¹¹ Amir Alfatakh. The Islamic Financial Services Act. Islamic Bankers: Resource Centre. 17 April, 2013

¹² Nur Hidayah, Abdul Azis, and Moch. Bukhori Muslim. 2022. Complying with Sharia While Exempting from Value-Added Tax: *Murābahah* in Indonesian Islamic Banks. *Ahkam: Jurnal Ilmu Syariah*. Vol 22, No 1 (2022).

¹³ Fathullah Asni & Jasni Sulong. 2018. Non-ethical Elements in *Tawarruq* Munazzam Product for Islamic Housing Financing in Malaysia. *International Journal of Academic Research in Business and Social Sciences*

¹⁴ Abdul Ghafar Ismail, Nik Abdul Rahim Nik Abdul Ghani & Mat Noor Mat Zain. 2013. *Tawarruq* time deposit with *wakalah* principle: An opinion that triggers new issues. IRTI Working Paper Series 1435-02. 10 November.

¹⁵ Apnizan Abdullah. (2015). Is Garnishee Proceeding Feasible on Islamic Banking Deposits and Investment Accounts in Malaysia? *Islam and Civilisational Renewal (ICR)* vol.6, no.4. 4 Oktober. <http://iaais.org.my/icr/index.php/icr/article/view/522/483> (05 Aug 2017)

investments in compliance infrastructure, including the development of new policies and procedures to manage the risks associated with the new product classifications.

Moreover, the operational challenges posed by IFSA 2013 are multifaceted. Islamic banks must ensure that their deposit products are structured in a way that complies with both Shariah principles and regulatory requirements. This involves a careful balancing act between maintaining product competitiveness and ensuring compliance. The shift towards contracts like *tawarruq* or commodity *murabahah* has required banks to develop new operational capabilities, including the ability to manage complex commodity transactions and ensure transparency in product offerings.¹⁶

Apart from that, risk management is also a critical component of the compliance challenges faced by Islamic banks under IFSA 2013. The reclassification of deposit products has introduced new risks, particularly in terms of liquidity management and capital adequacy. Islamic banks must implement robust risk management frameworks to mitigate these risks, ensuring that they can meet their obligations to depositors while maintaining financial stability. This includes developing new risk assessment tools and enhancing internal controls to monitor and manage the risks associated with the new product structures.

Based on interview data, both banks face challenges in balancing innovation with compliance and risk management. However, Bank A's approach is more structured, with dedicated policies for investment accounts, while Bank B integrates risk management into its broader policy framework. Both banks emphasize the importance of transparency and customer education in managing risks associated with deposit product innovation. The interviews highlight the need for ongoing dialogue with regulators and customers to ensure that product offerings remain competitive and compliant with evolving regulatory landscapes. In summary, while both Bank A and Bank B are committed to innovating deposit products, their approaches to risk management differ, reflecting their unique strategies and operational priorities in navigating the challenges of the Islamic banking sector.

Innovation and Market Adaptation

In terms of innovation and market adaptation, the study focuses on the strategic use of *wakalah* as a supporting contract in deposit products and the opportunities it presents for product diversification in Islamic banking. This theme highlights how Islamic banks can leverage Shariah-compliant contracts to

¹⁶ Muhammad Haffiz Muhammad Isa & Shahida Shahimi. [t.th.]. Apakah signifikan Akta Perkhidmatan Kewangan Islam (APKI) 2013 ke atas tingkahlaku penerimaan dana deposit oleh institusi perbankan Islam Malaysia, p.199 <http://ukmsyariah.org/terbitan/wp-content/uploads/2016/10/23-Muhammad-Haffiz.pdf> [7 July 2017].

create innovative and competitive offerings that meet both regulatory requirements and customer expectations.

Wakalah, a contract where one party appoints another to act on its behalf,¹⁷ is increasingly used in Islamic banking to structure deposit products. This contract allows banks to manage transactions on behalf of customers, ensuring compliance with Shariah principles. In deposit products, *wakalah* serves as a mechanism to manage risk by clearly defining the roles and responsibilities of the bank and the customer. This clarity helps mitigate potential financial risks and ensures that all transactions are conducted ethically and transparently.¹⁸ This practice can be seen in the *tawarruq*-based deposit product. It is believed that *wakalah* has been included as a supporting contract in *tawarruq* transactions to ensure that the customer will appoint the bank in conducting the sale and purchase.¹⁹

The use of *wakalah* in deposit products also enhances the bank's ability to offer diversified and competitive products. By acting as an agent, the bank can manage investments on behalf of the customer, aligning them with the customer's risk appetite and ensuring Shariah compliance. This not only builds customer trust but also allows banks to offer products with unique features, such as profit-sharing arrangements or investment-linked returns, which are attractive to customers seeking ethical banking solutions.²⁰

The integration of *wakalah* into deposit product structuring opens up significant opportunities for innovation and diversification. Islamic banks can combine *wakalah* with other Shariah-compliant contracts, such as *tawarruq* or commodity *murabahah*, to create a wide range of deposit products that cater to different customer needs and preferences. This diversification is crucial in a competitive banking environment, where customers are increasingly seeking products that offer both ethical compliance and financial returns.

By leveraging *wakalah*, banks can develop products that are tailored to specific market segments, such as high-net-worth individuals or corporate clients, who may have distinct investment goals and risk profiles. This targeted approach enables banks to capture a broader market share and meet the diverse needs of their customer base. Additionally, the flexibility of *wakalah* allows banks to innovate and adapt their product offerings in response to changing market conditions and customer demands.

¹⁷ Bank Negara Malaysia. 2016. *Wakalah*.

¹⁸ Interviews with Bank A and Bank B's officers. Please refer to Mastura binti Mohd Saffai @ Shafie, *Pelaksanaan Wakalah dalam Produk Perbankan Islam di Malaysia Menurut Akta Perkhidmatan Kewangan Islam 2013*, PhD Thesis 2024, Universiti Kebangsaan Malaysia, p. 158.

¹⁹ For example, in BIMB term deposit, the *wakalah* is used. <https://www.bankislam.com/personal-banking/deposit-and-investments/deposit-account/term-deposit-i-tawarruq/>

²⁰ Mastura binti Mohd Saffai @ Shafie, *Pelaksanaan Wakalah dalam Produk Perbankan Islam di Malaysia Menurut Akta Perkhidmatan Kewangan Islam 2013*, PhD Thesis 2024, Universiti Kebangsaan Malaysia, p. 143-148

Customer Perception and Strategic Growth

The enforcement of the Islamic Financial Services Act 2013 (IFSA 2013) has led to significant changes in deposit offerings, which have, in turn, affected customer perception and demand.²¹ Customers are becoming more aware of the differences between conventional and Islamic banking products, and there is a growing demand for Shariah-compliant options that align with ethical banking principles. This shift in perception highlights the need for Islamic banks to educate their customers about the benefits and risks associated with new deposit products.

For instance, since IFSA 2013 differentiates between deposit and investment product, Bank B provides one investment product for consumer banking customers, namely the Islamic Dual Currency Investment-i (DCI-i). The DCI-i investment product for consumer customers is structured based on a *wakalah* contract for investment purposes or *wakalah bi al-istithmar*. It is a structured investment product linked to foreign exchange that provides investors with the opportunity to earn higher returns compared to regular savings products. The returns on the DCI-i investment product depend on the performance of the foreign currency chosen by the investor when entering into the investment contract with Bank B. The foreign currencies offered for this product include USD, EUR, GBP, AUD, SGD, and JPY.

Customer education and awareness are crucial for promoting the acceptance of innovative deposit products. Islamic banks must engage in effective communication strategies to ensure that customers understand the unique features and advantages of Shariah-compliant products.²² This includes providing clear and transparent information about the structure, risks, and potential returns of deposit offerings. By enhancing customer understanding, banks can build trust and encourage greater adoption of their products.

Regulatory bodies play a pivotal role in shaping the development of deposit products in Islamic banking. The introduction of IFSA 2013 has established a more stringent regulatory framework, requiring banks to ensure that their products comply with Shariah principles and regulatory standards. This has necessitated ongoing dialogue between banks and regulators to facilitate innovation while maintaining compliance.

Strategic dialogue between banks and regulators is essential for fostering an environment conducive to innovation. By engaging in open communication,

²¹ Budiman, I. K.; Abdulaziz, M.; Jaffar, A. and Lo, M. T. (2019), "Impacts of the Islamic Financial Services Act 2013 on Investment Account products offered by Islamic Banks in Malaysia", *International Journal of Management and Applied Research*, Vol. 6, No. 4, pp. 317-327. <https://doi.org/10.18646/2056.64.19-024> |

²² Khairul Firdaus Adrutdin, Kamisan Gadar, Nur Syafiqah A. Rahim, Muhammad Asyraf Hasim, Customer Education in Islamic Banking In Malaysia in *Journal of Critical Reviews*, Vol 7, Issue 8, 2020, p. 127-130. ISSN- 2394-5125

banks can gain insights into regulatory expectations and align their product development strategies accordingly. This collaboration also allows regulators to understand the challenges faced by banks and provide guidance that supports innovation without compromising compliance.

Moreover, the need for compliance with regulatory requirements underscores the importance of developing robust internal processes and controls. Islamic banks must implement effective risk management frameworks to ensure that their deposit products meet both Shariah and regulatory standards. This includes regular audits, compliance checks, and ongoing monitoring of product performance to identify and address any potential issues.

The finding highlights the importance of customer education and strategic dialogue in the context of product innovation in Islamic banking. As the sector continues to evolve, Islamic banks must prioritize customer awareness and engage in ongoing communication with regulators to ensure compliance and foster innovation. By doing so, they can enhance customer trust, meet regulatory expectations, and drive growth in the Islamic banking sector. This approach not only strengthens the bank's market position but also reinforces its commitment to ethical and innovative financial solutions.

Aspect	Bank A	Bank Muamalat Bank B
Risk Management Approach	Structured approach with specific policies for investment accounts	Integrated risk management into broader policy framework
Use of Wakalah	Utilizes wakalah for managing deposit products, ensuring compliance and transparency	Employs a dual-wakalah structure for flexibility and compliance
Product Structuring	Leverages contracts like tawarruq to offer competitive and compliant products	Uses wakalah alongside other contracts for diversified offerings
Customer Education	Emphasizes transparency and managing customer expectations	Focuses on maintaining liquidity and capital adequacy while innovating products
Regulatory Compliance	Dedicated policies to ensure compliance with Shariah principles	Ensures product offerings align with regulatory standards through integrated policies
Innovation Strategy	Structured innovation strategy with a focus on risk management	Innovation integrated into broader policy, allowing for flexibility
Dialogue with Regulators	Ongoing dialogue to ensure product offerings remain competitive and compliant	Engages in strategic dialogue to align product development with regulatory expectations

Table 1: Summary of the differences in interview findings between Bank A and Bank B regarding risk management and product innovation in deposit offerings

This table highlights the distinct approaches of Bank A and Bank B in managing risks and innovating deposit products, reflecting their unique strategies and operational priorities in the Islamic banking sector.

Conclusion

The enforcement of the IFSA 2013 has significantly reshaped the landscape of deposit products in Islamic banking, presenting both challenges and opportunities for innovation. The Act's requirement for a clear distinction between guaranteed deposits and investment accounts has compelled Islamic banks to re-evaluate and restructure their product offerings to ensure compliance with Shariah principles and regulatory standards. This reclassification has introduced operational and compliance challenges, necessitating the adoption of new contracts such as *tawarruq* and commodity *murabahah* to meet regulatory demands. Despite these challenges, the strategic use of *wakalah* as a supporting contract has opened avenues for product diversification and innovation. By leveraging Shariah-compliant contracts, Islamic banks have the opportunity to create competitive deposit products that cater to diverse customer needs and preferences. This innovation is crucial for maintaining competitiveness in a dynamic financial environment and meeting the growing demand for ethical banking solutions. Furthermore, the changes in deposit offerings have influenced customer perception and demand, underscoring the importance of customer education and awareness. Islamic banks must prioritize effective communication strategies to enhance customer understanding and acceptance of new products. Additionally, ongoing dialogue between banks and regulators is essential to facilitate innovation while ensuring compliance with regulatory requirements. The challenges to grow investment products remain apparent with volumes continue to shrink as against to growth in deposit products post enactment of IFSA 2013. This may be resulted from both Islamic banking institutions and customers' risk avoidance appetite, couple with lack of understanding on the operationalization of Islamic investment products. Unlike conventional investment with fixed and high return experienced by the investors, Islamic investment products offering remain with uncertainty in terms of return on investment, besides the risk of potential capital loss, as to comply with shariah principles used as the underlying product structure. This investment product features had made Islamic investment product less competitive and appealing to the market. Operational capability and system readiness are another hindrance to the innovation in Islamic products and services. The need to ensure compliance with the new IFSA 2013 requirements and the regulatory policies and framework introduced by the central bank pursuant to IFSA's enactment, required cost of investment both in the talent as well as system infrastructure to enable smooth executions of the products' operations. Complexity in the products features and structure, legal documentations and disclosure requirements, on top of scarcity in

competent talent in product development and information technology had triggered the critical need for effective risk management system and controls to be in place to support the product innovation.

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