Gold Investment Account In Malaysia

A.M. Hafizi¹
Syed Musa Syed Jaafar AlHabshi²
Hawati Janor³
N.A.M. Naseem⁴
Mohd Faizal Kamarudin⁵

Abstract

Gold investment in Malaysia offers a rewarding and secure asset class for public through two different methods, physical gold or gold investment account (GIA). This research provides a comprehensive discussion on the GIA in Malaysia, its characteristics, structure and contemporary applications. GIA allows investor to make deposits when gold prices are low and withdraw the funds at profit when the gold price rises. The shariah compliance issues are also discussed. This research follows qualitative research method. Semi-structured interviews were conducted with the banks representatives to gain the information on GIA in Malaysia. Since studies on gold investment account have been scarce compared to other types of investment, this study contributes to the literature and serves as good practices of investor’s guideline.

Keywords: Gold investment account; Inflation; Investment; Shariah.

1.0 Introduction

Gold thrived during the sagging stock market of the 1970s and languished in the 1980s and 1990s boom in part because it is the ultimate anti-stock. Gold tends not to go down and often rises when the stock market falls, a financial peculiarity known as negative correlation. Considering its inverse relationship with stocks, gold is often regarded as portfolio insurance, though it does not pay any interest or dividend. Gold’s advantage lies in the precious metal’s

¹ A.M. Hafizi, School of Management, Faculty of Economics & Management, Universiti Kebangsaan Malaysia(UKM), 43600 Bangi, Selangor & IIUM Institute of Islamic Banking and Finance (IIiBF), International Islamic University Malaysia (Corresponding author). Email: hafizi_m@ukm.edu.my.
² Syed Musa Syed Jaafar AlHabshi, IIUM Institute of Islamic Banking and Finance (IIiBF), International Islamic University Malaysia, Malaysia.
³ Hawati Janor, School of Management, Faculty of Economics & Management, Universiti Kebangsaan Malaysia(UKM), 43600 Bangi, Selangor, Malaysia.
⁴ Mohd Naseem Niaz Ahmad, Department of Economics, Faculty of Economics and Management, Universiti Putra Malaysia (UPM).
⁵ Mohd Faizal Kamarudin, Faculty of Business and Management, Puncak Alam Campus, Universiti Teknologi MARA (UiTM), 42300 Bandar Puncak Alam Selangor Darul Ehsan, Malaysia & IIUM Institute of Islamic Banking and Finance (IIiBF), International Islamic University Malaysia.
protection against both inflation and a decline in the dollar value, risks that only some government bonds can evade. When all else fails, gold does not.

Gold accomplishes the purpose of money and is accepted as a type of payment globally (Baur, 2010). It is argued that governments can create unlimited amounts of paper money resulting in the fall and rise of its value, but the worth of gold remains stable, thus maintaining its value and purchasing power. According to Meera (2004), the rise of commodity prices and a weakening of US Dollar fixed the atmosphere for a bullish trend in the gold price since 2000. This trend has also affected the gold investment phenomenon in Malaysia until its peak time in 2011.

Most of the literature discussed the gold roles as a tool of hedging inflation, preserving wealth and storing intrinsic value besides generating high level of profit. Figure 1 shows the world gold price for the past 10 years (2006 until 2016). It shows the trend of gold price in U.S dollar, that describes the prospects of gold as an investment tool. Historically, people need to purchase physical gold whether gold bars, gold bullions or gold coins. Most of the buyers of this expensive metal were organizations such as central banks and jewelleries trader.

Source: www.kitco.com

Figure 1: World Gold Price in USD for 10 years Period (March 2006-March 2016)

Malaysia has been offering investors a unique way in gold investment. Financial institutions and banks permit customers to invest in gold by depositing their fund in the gold saving account (GSA) or gold investment account (GIA). This paper-based account is measured in unit of gold grams instead of in Ringgit Malaysia (RM) (Ibrahim, 2012). From one bank in the last 10 years, now there are eight banks in Malaysia offering GIA or GSA. This technique
offers flexibility to customers by permitting them to credit their fund and later withdraw the money at a profit once the prices of gold rise. This is a great platform for gold investor since they do not have to deal with the issue of storage as if they were investing in physical gold. But, this investment method may lead to the issue of *riba'* transaction due to the status of gold as a *ribawi* item.

Although previous literature has emphasized on gold as a crucial uprising investment instrument, research on how the real practice of the GIA is still lacking in particular in the context of Malaysia. Evidently, some researchers have discussed the gold characteristics as an investment instrument (Ibrahim, 2012). However, the information on the right method of gold investment is not really available causing some hitches in understanding the process of investing in gold, especially on the GIA as one of the techniques in gold investment in Malaysia. Lack of information also gives some reservations for potential Muslim investors who are concern over the *shariah* issues to involve in gold investment account. Thus, this research provides a complete discussion on the GIA in Malaysia, its characteristics, structure and contemporary applications. The *shariah* compliance issues are also deliberated.

This paper is organized as follows. Section 2 presents literature reviews. Section 3 specifies the research design. Discussions on GIA in Malaysia, its characteristics, risk and return, prospects and *shariah* compliance issues are described in Section 4. Finally, section 5 provides the conclusions.

### 2.0 Literature Review

As a valuable metal, gold is categorized as a monetary asset and a commodity similar to platinum and silver. As a unit of value, gold can be used as a medium of exchange and having similar features to money (Solt and Swanson, 1981 and Goodman, 1956). This is even highlighted by Al-Ghazali that Allah S.W.T created gold as a measure of value (Meera, 2011). Studies on the financial behaviours of gold include Faugere and van Erlach (2006), Lucey et al. (2006), Kaufmann and Winters (1989), and Sherman (1982). According to their findings and analysis, most of the central banks around the world keep a huge percentage of gold reserves for a few motives: portfolio diversification, physical and economic security, offers assurance through financial crisis, protected value and as hedging instrument against inflation and economic uncertainties.

The current financial uncertainty and the gold price strength inspire investors to hold gold as a safe haven asset (Baur and Lucey, 2010). Based on the findings, gold tends to hold its value when the shares market declines in the United Kingdom (UK), Germany and United States (US). This is also evidenced by Capie et al. (2005) that analyse the character of gold as a hedging instrument against the US dollar (USD). They found an indication of the exchange-rate hedging potential of gold. The potentials of gold as an investment instruments was also
examined by McCown and Zimmerman in 2006. They also found an indication and proof of the gold as an inflationary hedge tool. Their studies propose gold has characteristic of zero market risk and bearing zero beta assets.

According to Draper et al. (2006), Davidson et al. (2003), Egan and Peters (2001), Ciner (2001), Johnson and Soenen, (1997), Aggarwal and Soenen (1988) and Sherman (1982), gold played a great role as an asset for the purpose of portfolio diversification. In Malaysia, Hafizi et.al (2012) discussed that the benefits of gold investment in the financial crisis period. Besides, Baharom and Ibrahim (2011) assessed whether gold investment in Malaysia offers safe haven, hedge or diversification advantages using daily data for ten years, from 2001 to 2010. Their findings indicate gold has a great potential to serve as a diversification asset for local investors. They concluded that gold remains as a steady and safe asset for investment purpose.

From the Islamic perspective, gold is used as part of individual savings and as a currency (gold dinar). Many verses in the al-Quran, i.e. Surah Al-Imran, verse 14 and Surah Al-Kahf, verse 31 disclose that gold is the most precious asset in this world and in the hereafter. The researches done until today, mostly covers the gold dinar issues extensively discussed by few researchers such as by Rab (2002), Haneef and Barakat (2002), Meera and Aziz (2002), Lee (2011), Yaacob et al. (2011) and Cizakca (2011). While there are only three studies discussing the potentials of gold investment in Malaysia conducted by Hafizi (2012), Ibrahim (2012) and Syed Alwi (2013). Since researches on gold investment are very scarce and limited, thus this research fulfils the demand from the public and society.

3.0 Research Design

This paper follows qualitative research method. Since researches on gold investment are very scarce compared to other types of investment, both primary and secondary data are used. This research adds new findings to the existing literature by extensively discussing GIA products in Malaysia. Semi-structured interviews were conducted with the banks representatives to gain the information on gold investment accounts in Malaysia. Sources of data also include documents and texts from the National Fatwa Council Malaysia (NFCM), Bank Negara Malaysia (BNM), and authors’ analysis. Other written information includes published and unpublished documents such as bank product disclosure brochures, newspaper articles reports, and magazines.

4.0 Analysis and Discussion

Instead of investing in physical gold, banks in Malaysia are offering a GIA or GSA to the customers. This account is a statement-based GIA which allows customers to trade and invest
in gold without the inconvenience of delivering, transferring and storing the physical gold, or concern about the safety of holding it. Besides, customers gain high liquidity in terms of being able to sell their holdings to the bank or company during transaction hours.

Similar with investing in physical gold, this account functions the identical purposes of providing a good hedge against inflation and economic uncertainties. Investments are secured and safe in which the account is completely backed by physical gold. Investors prefer GIA due to its affordability and convenience features that let them to buy gold and withdraw it easily with their account. The selling price of the gold is quoted by the bank in Ringgit Malaysia (RM) per gram at the initial placement date. This transaction is recorded in passbook or a statement will be issued.

4.1 Characteristics of GIA in Malaysia

Presently, there are eight banks that offer GIA in Malaysia. They are Maybank, CIMB Bank, Public Bank, Citibank, Kuwait Finance House (KFH), Standard Chartered Bank, UOB Bank and HSBC Bank. In addition, there is another GIA product known as ‘Gold Accumulation Program’ (GAP) offered by one of the minting company in Malaysia, Public Gold Sdn Bhd. Normally, GIA allows the customer to open a joint account with a number of two to four persons in one account. Table 1 lists gold investment accounts that offered by banks and company in Malaysia.

Table 1: List of Gold Investment Accounts in Malaysia

<table>
<thead>
<tr>
<th>No.</th>
<th>Bank/Company</th>
<th>Account Name</th>
<th>Minimum Investment</th>
<th>Withdrawal Options</th>
</tr>
</thead>
<tbody>
<tr>
<td>i.</td>
<td>Maybank</td>
<td>Maybank Gold Investment Account (MGIA)</td>
<td>1 gram</td>
<td>Cash only, no physical gold</td>
</tr>
<tr>
<td>ii.</td>
<td>CIMB Bank</td>
<td>CIMB Bank Gold Deposit Account (GDA)</td>
<td></td>
<td>CIMB Bank</td>
</tr>
<tr>
<td>iii.</td>
<td>Public Bank</td>
<td>Gold Investment Account (GIA)</td>
<td>10 grams</td>
<td>Cash only</td>
</tr>
<tr>
<td>iv.</td>
<td>UOB Bank</td>
<td>Gold Savings Account (GSA)</td>
<td>20 grams</td>
<td>Cash &amp; Physical</td>
</tr>
<tr>
<td>No.</td>
<td>Bank/Company</td>
<td>Account Name</td>
<td>Minimum Investment</td>
<td>Withdrawal Options</td>
</tr>
<tr>
<td>-----</td>
<td>--------------------------------------</td>
<td>-------------------------------------</td>
<td>--------------------</td>
<td>------------------------------------------</td>
</tr>
<tr>
<td></td>
<td>Premier Gold Account (PGA)</td>
<td></td>
<td>1 kilogram</td>
<td>Cash &amp; Physical</td>
</tr>
<tr>
<td>v.</td>
<td>Kuwait Finance House (KFH)</td>
<td>KFH Gold Account-i</td>
<td>10 grams (individuals/joint) &amp; 50 grams (non-individuals)</td>
<td>Cash &amp; Physical</td>
</tr>
<tr>
<td></td>
<td>KFH Junior Gold Account-i</td>
<td></td>
<td>5 grams</td>
<td>Cash &amp; Physical</td>
</tr>
<tr>
<td>vi.</td>
<td>Citibank</td>
<td>Citibank Gold Account</td>
<td>-</td>
<td>Cash only, no physical gold</td>
</tr>
<tr>
<td></td>
<td>Citibank Dual Currency Account (Gold)</td>
<td></td>
<td>-</td>
<td>Cash only, no physical gold</td>
</tr>
<tr>
<td>vii.</td>
<td>Standard Chartered Bank</td>
<td>Premium Currency Investment Gold</td>
<td>RM250,000 or RM50,000</td>
<td>Cash (USD) &amp; physical</td>
</tr>
<tr>
<td>viii.</td>
<td>HSBC Bank</td>
<td>HSBC Gold Account</td>
<td>10 GLD *1 GLD unit represents 0.1 unit of XAU.</td>
<td>Cash only, no physical gold</td>
</tr>
<tr>
<td>ix.</td>
<td>Public Gold</td>
<td>Gold Accumulation Program (GAP)</td>
<td>1 gram</td>
<td>Cash &amp; Physical</td>
</tr>
</tbody>
</table>

Source: A.M. Hafizi et.al (2012)
Most of the banks, i.e Maybank, Public Bank, CIMB Bank, UOB Bank and HSBC Bank follows the basic structure of GIA. Investor has to deposit their fund based on gold selling price determined by the bank. Then, bank will prepare a statement or account book that will record the gold transaction (buying and selling) in unit of grams of gold. If the investor intends of cash withdrawal, they need to request to the bank to credit his money into their account based on the bank’s buying price stated by the bank. Figure 2 illustrates the basic structure of gold investment account in Malaysia. While in case of physical gold withdrawal, i.e in CIMB Bank and UOB Bank GIA, investor need to request to the banks for the physical gold withdrawal.

Source: Authors’ Illustration

Figure 2: Basic Structure of Gold Investment Account in Malaysia

At present, in Malaysia, Maybank Gold Investment Account (MGIA) requires the lowest initial investment whereby the investor may start to invest with as low as 1 gram of gold (as compared to 5 grams or 10 grams at other institutions). For MGIA investors may buy 999.9 fine gold, all transactions perform are recorded in passbook, without having to keep the physical gold. It is physically backed by the gold that deposited in Pamp Suisse (PAMP S.A), a world’s leading bullion brand. However, the returns are subjected to fluctuations in gold price. For United Overseas Bank (UOB), the investors may invest in two accounts either in the Premier Gold Account (PGA) or in the Gold Saving Account (GSA). Both accounts shared the similar features except that the GSA allows the investors to invest with minimum
of twenty (20) grams of gold as compared to minimum of 1 kilogram for the PSA. For these accounts, the investor may request the physical gold, however, it is subjected to the bank’s approval and conversion fees will be imposed. To date, the UOB’s products are consider as the most competitive in the market as it imposes the lowest price spread (RM2 for PGA and RM3 for GSA).

The latest GIA product offered in Malaysia is HSBC Gold Account that offered in 2015 by HSBC Bank Malaysia (HSBC Bank). Similar to other gold investment accounts, this account offers public an opportunity to invest in gold investment without holding any physical gold. However, instead of using unit of gram of gold, HSBC will convert the deposited fund in GLD units (1 GLD unit equal to 0.1 unit of XAU-international standard currency code for 1 (one) troy ounce (31.25 grams) of gold). One XAU represents one troy ounce of gold, which is equivalent to ten units of GLD. Figure 3 depicts the transaction for HSBC Gold Account.


**Figure 3: HSBC Gold Account Transaction**

### 4.2 Risk and Return

GIA provides an ideal way to invest in gold without facing a common problem when investing in a physical gold. The gold price quoted on daily basis and will be pegged to the world market price. Since this is a non-interest bearing account, it provides a prospect for better capital gain from the gold price increase. The returns on this account are subject to the global gold price fluctuations. As an investment product, GIA is not insured by Malaysia Deposit Insurance Corporation (MDIC). This account offers prompt liquidity, where investors can withdraw their investments in cash at any time during transaction (banking)
hours for the accounts that offered by banks and during anytime (24 hours per day) for account that offered by Public Gold. Subsequently, the gold is kept by the bank and no cash inflow in the forms of dividend or interest will be paid to the investors.

Table 3: Risk and Return in Gold Investment Account

<table>
<thead>
<tr>
<th>No.</th>
<th>Risk</th>
<th>Return</th>
</tr>
</thead>
<tbody>
<tr>
<td>i.</td>
<td>Pricing risk</td>
<td>Capital gain</td>
</tr>
<tr>
<td>ii.</td>
<td>Market risk</td>
<td></td>
</tr>
<tr>
<td>iii.</td>
<td>Return risk</td>
<td></td>
</tr>
<tr>
<td>iv.</td>
<td>Principal risk</td>
<td></td>
</tr>
</tbody>
</table>

The bank, taking into account the prevailing international and local market price for gold, gold pureness and exchange rate between RM and USD has sole discretion in determining the gold buying and selling price. As a result, the investors may experience significant losses should the market perform against their expectation. Notably, the investors for this instrument are subjected to pricing risk, market risk, return risk and principal risk. Pricing risk occurs due to the buying and selling price of gold that stated and determined by the banks or company at their sole and absolute discretion by considering relevant reasons. Besides, GIA will also be exposed to market forces and volatility. People may bear significant losses on the investment if market situations move against their favour due to unexpected market movements. Return risk is another risk to be considered as a result of the market risk. In this market, gold prices may fluctuate daily and investor will make capital gains if the gold price rises higher than their principal (investor’s buying price). However, there is no certainty that prices will rise and some time, it might even drop. The fourth and last risk is a principal risk. This is due to the effect of the market risk and return risk. In this situation, investor may not receive their principal amount when they decide to withdraw their GIA.

4.3 Shariah issues

Gold is enlists as one of the ribawi item. Therefore, investment in GIA or GSA must strictly adhere to the shariah principle. According to the 96th discourse of National Shariah Council, buying and selling transactions of gold must be done immediately or hand to hand. According to the experts, this account is subjected into several ruling. Firstly, the transaction is viewed to be harmful and void in case where the physical gold is not in the bank possession yet during the execution of the contract. This is due to the fact that the bank has sold subject
matter without it rightful ownership. In this event, it seems that the contracting parties, the bank and the investor, has committed *riba*’ due to the missing element of ‘*taqabud fil majlis*’ or offer and acceptance during the same event.

Specifically, the further deferment in delivering the subject matter would lead to the *riba*’ *an-nasiah*. Hence, the investor is expected to ensure that the bank has the rightful ownership on the gold prior to the execution of the contract. Moreover, the contract is viewed harmful and void if the bank, upon request, not able to deliver the gold. On top of that, the contract must be properly recorded in the form of passbook or statement to indicate the investor ownership on the underlying subject matter. The issuance of the evidence signifies sales and gold investment account opening. Thus, the contract is permissible and valid when ownership of the subject matter being transferred to the investor though it is considered as the non-physical delivery (*al-Qabdu al-Ma’nawi*).

As one would expect for the investment in gold account to be *shariah*-compliant it must not involve any element of *riba*’. Therefore, the gold must be in the physical form that could be keeping by the bank on behalf of the investor. However, the bank is not allowed to use the gold for any of it other banking activities. Also, for this product the bank is expected to specify the underlying contract such as *qard, wadiah* and etc. In addition, the bank is obliged to have adequate amount of gold during the transaction period.

Currently, only KFH Gold Account-i, offered by Kuwait Finance House, is certified by BNM as *shariah*-compliant products. It allows the investors to invest in gold in a secured, convenient and affordable manner without hassle to keep the physical gold. The customer can open gold account with minimum of 5 gram (for junior), 10 grams (for individual) and 50 grams (for non-individual) respectively. The underlying contract for KFH Gold Account-i are *Bai’ as-Sarf* and *Qardh al-Hassan*. *Bai’ as-Sarf* refer to the exchange of one monetary form for another in the same or different form on a spot basis. In this case, it refers to the exchange of the money with gold. Under this contract, investor will buy the gold from KFH in gram at the selling price determined by KFH. Meanwhile, *qardh* refers to benevolent ‘loan’ or interest-free ‘loan’ whereby KFH as the borrower is only required to return the commodity or principal borrowed. For this product, KFH will act as the debtor (Muqtaridh) and the investor assume the role of creditor (Muqridh). Figure 2 depicts the structure of KFH Gold Account-i.
KFH Gold Account-i allows investors to conveniently invest and trade in gold. As all transactions are properly recorded, investor may track and wisely plan their investment. In contrast to MGIA, this account is a non-passbook account. Similar with other gold account that offer hassle-free of keeping the physical gold, investor may request to withdraw the physical gold immediately, in the denomination of 1, 5, 10, 20, 50 or 100 gram. Alternatively, the bank can be appointed as the custodian of the gold under contract of Qardh al-Hassan. For the purpose of withdrawal and safe custody, the bank does not impose any charges. Hence, with all these criteria KFH Gold Account-i satisfy all the conditions required for the shariah-compliant products. On the other hand, KFH Gold Account-i is different from other GIA available in the market as the non-individual such as associations or other business entities that KFH Malaysia finds suitable or acceptable is allow to invest in this products.

At present, there are better understandings on the GIA among investors. With wide-ranging promotions this is expected to be translated into huge demand. Indeed, the recent announcement by Bank Muamalat Malaysia Berhad to offer this product in near soon further testifies this situation. Hence, the banking and non-banking institutions are encourage considering gold investment account in its products. Certainly, this will provide more options for the investor alike. As mentioned earlier, as at now, the UOB’s products are deem as the most competitive in the market as it levies the lowest price spread.
Based on our analysis, status of all products currently available in the Malaysian market is deemed as non-shariah compliance except for KFH Gold Account-i. This is multifaceted with the ambiguous status of the certificate or the evidence of purchase whether it could be used by investor to withdraw their gold as required by them. For instance, enquiry with Public Bank Berhad revealed that certificate cannot be construed as rightful ownership of the investor that allows them to withdraw the deposited gold. If the certificate being held by the investor cannot be ‘redeemed’ into physical gold, it thus intervenes in the process of ‘taqabud al-hukmi’, that is compulsory in transactions involving ribawi items, thus damage the ‘aqad which in this case is between gold and Ringgit Malaysia (RM). Therefore, potential investor of GIA is encouraged to clarify on the abovementioned issues.

5.0 Conclusion

Innovation has led to products that offer greater flexibility and accessibility to investors, such as GIA, gold sukuk and gold exchange-traded funds (ETFs). The various gold-related investment products have different risk and return profiles, liquidity characteristics and fees. Recent trend shows that Malaysians are increasingly turning to GIA as one of the shariah-compliant mechanisms to protect wealth. By providing comprehensive discussion on the gold investment account that covers the current practices, risk and return and shariah issues, this study benefits public, financial institution and the regulator in Malaysia. Therefore, this research contributes to the literature by looking to the relevant aspects to be considered in the GIA in Malaysia.

References


The 96th Discourse of the Fatwa Committee of the National Fatwa Council for Islamic Religious Affairs Malaysia, 13th-15th October 2011.