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**“*Shariah* Investment-Pocketbook”: An Initiative to Develop *Shariah* Investment Awareness in Malaysia**

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**Abstract**

“*Shariah* Investment-Pocket” is one of the preliminary initiatives to develop *Shariah* investment awareness in Malaysia by exposes them with the background and knowledge on the practices governed under the Islamic practices. The objectives of “*Shariah* Investment-Pocketbook” are; i) to empower investors to be more actives in their investments and investment decision-making to ensure they achieve greater financial needs and wealth maximization; ii) to provide a platform to the public to gain knowledge and information; iii) to protect public from investing in non-halal products; iv) to provide guidance to investors investing in and selling *Shariah* compliant securities of *Shariah* investment in Bursa Malaysia; v) to recommend the best practices for investors to adopt as part of their respective *Shariah* compliant securities and trading processes and activities; and vi) to provide a comprehensive market for *Shariah* investment communities to strengthen Malaysia's position in the eyes of issuers of global instruments and investors. The method applied in this study was by made a comparison of total *Shariah* compliant investment on Bursa Malaysia, from May 2007 until January 2018. Based on the findings, it showed that the numbers of investments as *Shariah* compliant on Bursa Malaysia were declining. Therefore, “*Shariah* Investment-Pocketbook” is one of the initiatives to enhance the awareness of *Shariah* investment in Malaysia, not only to the existing investors but also are important to the institutional investors, potential investors, public, issuers, intermediaries and regulators. Moreover, “*Shariah* Investment-Pocketbook” had participated at International Invention, Innovation & Technology Design Competition 2018 (ITeC) on 27<sup>th</sup> February 2018, at Dewan Biduanda Universiti Teknologi Mara (UiTM) Cawangan Negeri Sembilan, Kampus Rembau, Malaysia; and had been awarded Gold Award for Social Science Category.

**Keywords:** *Shariah* investment, investors, investment decision making, *Shariah* compliant

### Introduction

Malaysia was the first Muslim country with a conventional stock market to develop the *Shariah* compliant stock and *Shariah* stock index. Following that development, Dow Jones, the United States-based publisher of the Wall Street Journal and financial information provider, introduced the Dow Jones Islamic World Market Index (DJIWM) in 1999. DJIWM is a global index for *Shariah* compliant stocks. However, the implementation of Malaysian stocks and global stocks are different, in terms of screener, denominator, financial ratios benchmark and discretion (Najib et al. 2014).

Definition of *Shariah* compliant investment is a series of ethical financial transactions that follows the Islamic law. There are a lot of positive impacts by implementing the *Shariah* investment to various parties such as investors, companies, and economic growth. Firstly, in the investors benefit perspectives, *Shariah* investment does not only maximize their wealth creation but also as their duty, responsibility and welfare to the society. *Shariah* investment is expected to give consistent returns to the investors because their fund characteristics that are perceived to be ethical (Mansor & Bhatti, 2011). Elfakhani and Hasan (2007) had proved many conventional investors move to Islamic fund for their investment because their study showed that Islamic mutual fund had a strong performance even during the downturns, compared to the conventional benchmark (S&P500).

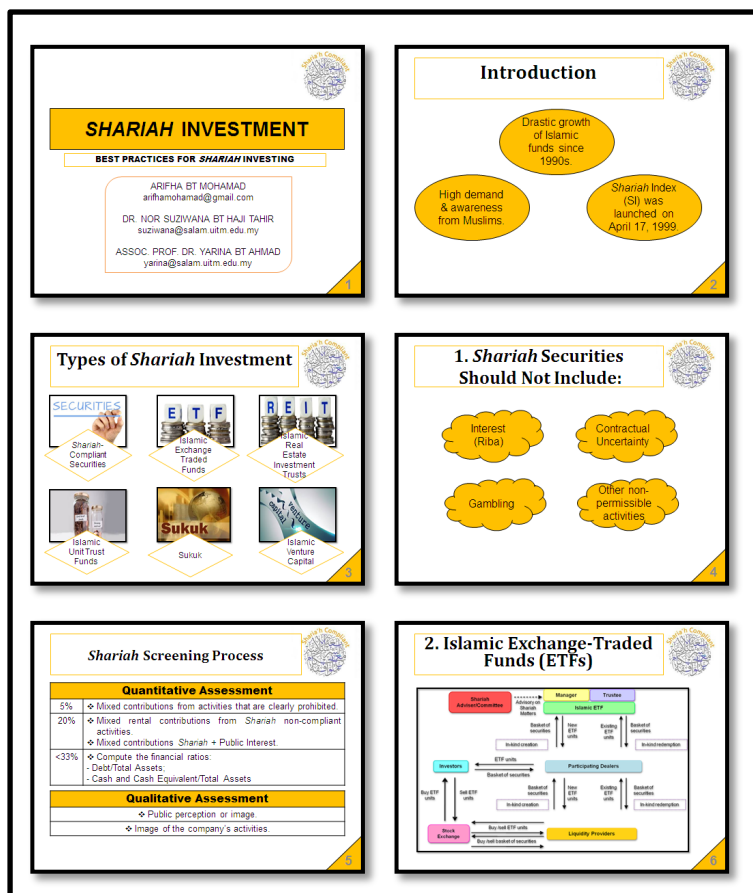
Secondly, if the companies adopted *Shariah* compliant in their business operations, it can strengthen the stakeholders' investment in their company. For example, if the company is not involved in interest, uncertainties, and manufacturing or sales of non-halal goods, the stakeholder will have more confidence that the company obeys the *Shariah* regulations (Securities Commission, 2009). Other than that, *Shariah* non-compliants like gambling in the business activities can potentially create a risk to the company (Collier, 2009). In addition Islamic finance can help the company to solve the financial crisis problems, because they are free from interest, gambling, and ambiguity (Dewi & Ferdian, 2010).

Thirdly, *Shariah* investment practices in Malaysia also make a significant contribution to the Malaysian economic growth. The increased of *Shariah* index was in line with the Gross Domestic Product (GDP) growth in Malaysia. As announced by Malaysia's Prime Minister, Datuk Seri Najib Razak, *Shariah* index was increased by 76.06% in 2017 compared to 75.42% in 2015. According to him, Malaysia was ranked as “very good” in the index, and some areas had achieved above 80% score such as legislature and education (Anand, 2017). In line with the growth of GDP, it had been recorded that the GDP for 2017 is 6.2%, compared to 4.5% in 2016 (Department of Statistics, Malaysia, 2017). Similarly, in 2007, *Shariah* index recorded a high growth

which is 39.76% and was in line with the GDP in 2007, which is 6.3% (Mohd Hussin, Muhammad, Abu & Awang, 2012).

## OBJECTIVES

The objectives of “*Shariah Investment-Pocketbook*” are; i) to empower investors to be more active in their investments and its decision-making to ensure they achieve greater financial needs and wealth maximization; ii) to provide a platform to the public to gain knowledge and information; iii) to protect public from investing in non-halal products; iv) to provide guidance to investors investing in and selling *Shariah* compliant securities of *Shariah* investment in Bursa Malaysia; v) to recommend the best practices for investors to adopt as part of their respective *Shariah* compliant securities and trading processes and activities; and vi) to provide a comprehensive market for *Shariah* investment communities to strengthen Malaysia's position in the eyes of issuers of global instruments and investors. The outcomes of the product had been awarded Gold Medal at International, Invention, Innovation, and Technology Design Competition 2018 (ITeC2018) at Dewan Biduanda UiTM Cawangan Negeri Sembilan, Kampus Rembau. Figure 1 outlined the design of the product innovation.



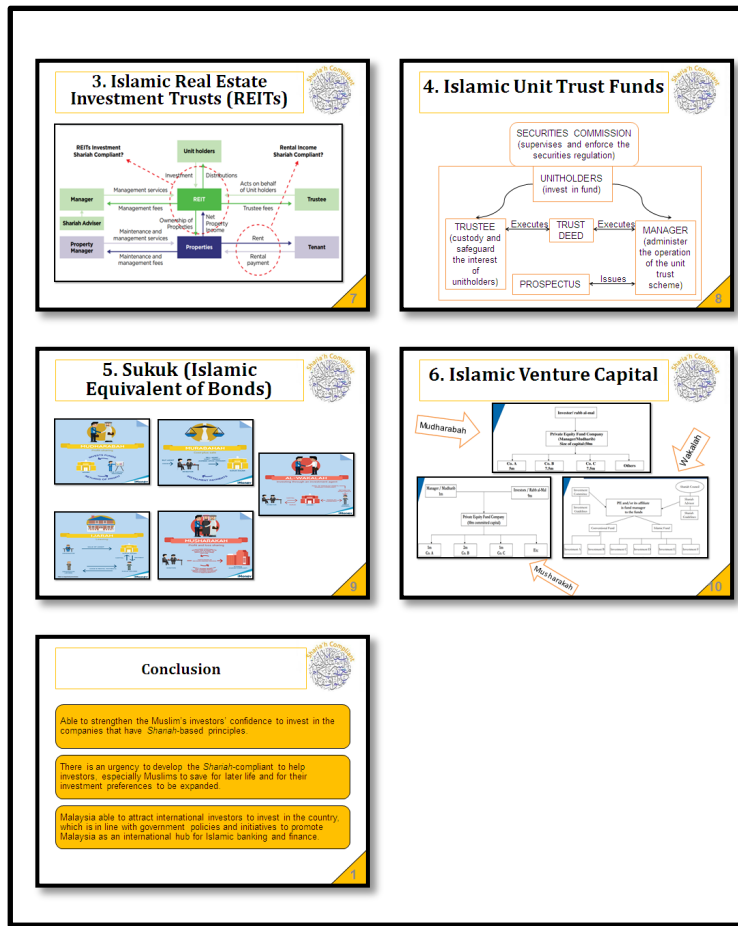


Figure 1. Shariah Investment-Pocketbook

## Research Questions

Which type of industry in Malaysia Public Listed Companies (PLCs) have the lowest number of *Shariah* compliant companies under Bursa Malaysia?

## Theory

The theory that is applicable to this study is Islamic finance that governs *Shariah* investment. It can be defined as an individual investment that spends their money in their moral and beliefs. Islamic finance is likely similar to the conventional finance, but there are some added criteria that differentiate between those types of finance, such as adherence to the investors' ethics and promotion to the social-welfare activities (Chowdhury & Masih, 2015).

SRI had been proven to solve a number of problems such as the issue on transparency in investment decision making process and outreach to poorer members of society. As a result of SRI, it showed a positive impact in terms of investment portfolio due to the companies' stronger financial status, more stable, and profitability, had been selected in order to be categorized as *Shariah* compliant companies.

Moreover, SRI able to minimize risk for *Shariah* investment because the companies that are going through the *Shariah* screening process are selected among highly low leverage and free from uncertainty and gambling activities (Abdullah, et al., 2007; Hussein & Omran, 2005).

However, as a new emergence of financial practice, Islamic finance still has a lack of guidance from the regulatory bodies. There are none standard regulations that governed across the globe. Differencing interpretations between funds are still used. Islamic finance have their own financial parameters to ensure that the screening process abide by the *Shariah* compliant investment. Banner Self-Service (SSB) has the responsibility to filter the company’s core principle in terms of leverage, presence of interest-bearing assets and liabilities, and high level of debt and credit.

Islamic finance has to go through the purification process by eliminating any portfolio of income that are related to the interest or any other impermissible revenue sources. As Islamic finance excludes the impermissible activities that are against Islamic law, there are several sectors exclusion under *Shariah* compliant, namely, alcoholic beverages, tobacco, weapons production or distribution, gambling and pornography (Chowdhury & Masih, 2015).

### Methodology

The methodology of this study is comparing between the numbers of Malaysia Public Listed Companies (PLCs) that are governed under *Shariah* compliant as of January 2018. Through the method, this study is able to identify, which type of investment had the lowest *Shariah* compliant practices for their investment. The details of the companies have been collected from Bursa Malaysia.

### Literature Review

Muslims population that represents nearly 20% of the world population are demanding the *Shariah* compliant investment products because it can ensure stability and lower risk, and at the same time, it can attract more Public Listed Companies (PLCs) to grant for *Shariah* compliant status through the screening process (Securities Malaysia, 2015). Mohd Sanusi, Ismail, Hidayati and Harjito (2015) claimed that Muslim investors concerns on the Islamic investment guidelines conducted by the companies, in order for them to identify *Shariah* compliant companies for their investment decision making.

A prior study by Hakim and Rashidian (2002) are related to the performance of Islamic funds or indices. They made a comparison between Dow Jones Islamic Market Index (DJIMI) and Wilshire 500 Index for the period 10/12/1992 until 9/4/2002. From the findings, it proved that there is no loss from the Islamic index and the investors are

not worse off from their investment. In addition, Ludwigh (2005) also made a comparison but in Amana Islamic Income Fund, S&P 500 and SRI fund tracked by Bloomberg during 2004 until 2005. Based on the annual return result, it showed that Amana Islamic Income Fund rose drastically compared to others. Amana Islamic Income Fund rose by 25% from 17%, S&P 500 decrease from 28% to 9%, while SRI fund tracked by Bloomberg had a loss 3.3%.

Abderrazak (2008), Elfakhani and Hassan (2007), and Abdullah et al. (2007) agreed that Islamic investment provides a good hedging investment even during market downturns because of the returns from the performance show only a mild correlation with market movement. Obaidullah (2001) and Naughton and Naughton (2000) concluded Islamic investment can ensure the securities to avoid speculation and unnecessary risk-taking. Hussein (2004) proved that in his study, Islamic Index and FTSE All-World index shows a good performance for the period of July 1996 until August 2003. However, Islamic Index shows a great performance in the bull market period (July 1996 until March 2000).

Other than that, Sukmana and Kholid (2012) argued that Islamic index is safer than traditional stocks. They examined the comparison of risk performance of the Jakarta Islamic Stock Index (JASKISL) and the conventional Jakarta Composite Index (JCI). Islamic fund investments are also applicable to the small-cap with low capitalization companies, compared to the conventional funds which are mostly invested in large companies (Hoepner et al, 2011). Many countries already amend from *Shariah* non-compliant based to the *Shariah* compliant based as a way to generate capital and at the same time can solve the financial issues, such as in London and Indonesia (Alvi, 2006 & 2007). In addition, after the Asian financial crisis, Malaysia had developed their *Shariah* capital market in order to have a proper Islamic financial system (Alshowaikh, 2008).

Abdullah and Bacha (2001) had conducted a study in Malaysia to analyze the impact of *Shariah* stocks on return and trading volume. Their study found that *Shariah* stock has a positive relationship with the returns and trading volume in Malaysia. Ahmad and Ibrahim (2002) also analyzed the risk and return performance in Malaysia, but they made a comparison between Kuala Lumpur Shariah Index (KLSI) and Kuala Lumpur Composite Index (KLCI). The result showed that it is overperforming only during the growing period compared to decline period and overall period. However, they also argued that there is no obvious difference between KLSI and KLCI during those three periods.

Hussein (2005) examines the differences between monthly returns of Financial Time Stock Exchange (FTSE) Global Islamic Index and Dow Jones Islamic Market Index from another common index for the period of January 1996 to December 2004.

He concluded that for the long period, Islamic index is overperformed during entire period and bull market period. Hence, for the short period, the index is overperforming during the whole period and bull market period. Albaity and Ahamad (2008) concluded that there is no significant difference in return between KLSI and KLCI over the period of April 1999 to December 2005 in Malaysia. Sadegi (2008) examined the impact of the introduction of Bursa Malaysia Islamic Index on the financial performance and liquidity of the Islamic securities in Malaysia. The result of the study reveals that there is a positive relationship between the introduction of Islamic Index and the financial performance.

Alhabshi (2008) and Khatkhatay and Nisar (2007) argued that fully equity of *Shariah* compliant are extremely rare. This argument is supported by even though, in the screening process, the situation also allowed the prohibited elements; and one country has to deal with the conventional financial institution because most of the countries practice those type of financial institution. Donia and Marzban (2008b) also stated that, until now, it is extremely hard to find companies that are not dealing with conventional banks. According to Popotte (2010), Islamic Finance Asia (2008), Sefiani (2009), Donia and Marzban (2008a) and Siddiqi (2006), the screening process for *Shariah* compliant is a tedious process and it is not an easy task to do.

McGowan Jr and Muhammad (2010) conclude that there are two reasons the company retain their *Shariah* compliant status, namely, to retain their existing investors and to increase their market from non-Muslim investors. Bercicci, Hockerts, and Wagner (2001) claimed that undervalued companies are encouraged to make an ethical investment in order to enhance investment opportunity. Johnson and Neave (1996) reported that *Shariah* compliant securities are expected to have a lower return, than the *Shariah*-non compliant securities. Rahimie Abd Karim (2010) supported that expected earnings from the dividend and stock price performances are unstable and high volatility of *Shariah* compliance securities. He argued that the size of the company does influence the performance of *Shariah* compliant securities because they are not supported by large capitalized and diversified business interest. In contrast, Merdad, Hassan and Alhenawi (2010) revealed that *Shariah* compliant securities are outperformance during bearish and Asian Financial Crisis period, but underperforms during bullish and the whole period. Together with Alam and Rajjique (2010), in European, the *Shariah* compliant securities perform better even during economic slowdowns.

### Findings

In order to determine the number of *Shariah* compliant companies that are listed under Bursa Malaysia, this study have analysed the number of *Shariah* compliant

companies according to the industry. As at January 2018, there were 691 total number of companies that are *Shariah* compliant listed under Bursa Malaysia. Table 1 presents the overall number of companies for each industry that are complying with the *Shariah* principles.

Table 1

*Total of Shariah Compliant Companies on Bursa Malaysia as at January 2018*

Industry	No. of <i>Shariah</i> -Compliant Companies	Percentage to Represent Industry (%)
Trading-Services	155	71.43
Finance	2	6.25
Plantation	31	77.5
Construction	45	93.75
Properties	73	76.04
Consumer Products	105	81.40
Industrial Products	195	82.28
Technology	76	85.39
Hotels	1	25.0
Real Estate Investment Trust (REITs)	4	22.22
Exchange-Traded Fund (ETF)	2	22.22
Infrastructure (IPC)	2	50.0
Mining	NIL	NIL
Closed-Fund	NIL	NIL
Special Purpose Acquisition Company (SPAC)	NIL	NIL
<b>Total</b>	<b>691</b>	<b>-</b>

Source: Bursa Malaysia (2018)

### Discussion

According to the preliminary results as at January 2018, it showed that only three industries that have none Public Listed Companies (PLCs) that are adhering to *Shariah* compliant are mining, closed-fund and SPAC industry. Moreover, construction industry shows the highest percentage of companies that are *Shariah* compliant, followed by technology industry, industrial products industry, consumer products industry and plantation industry. It also appears that the lowest percentages of *Shariah* compliant to represent the whole number of companies are finance industry, REITs, ETF and hotels industry. The percentages of those industries are less than 50%. The justifications for the lowest participation by those industries are explained in the next paragraph.



Together with the findings, it showed that out of 32 finance industry that was listed on Bursa Malaysia, only two of them are *Shariah* compliant, which were BIMB Holdings Bhd and Syarikat Takaful Malaysia Bhd. This situation also had attracted the attention of Chairman Permodalan Nasional Bhd (PNB), Tan Sri Abdul Wahid Omar with the less listed finance industry on the local bourse. He argued that this problem had caused a big impact on the industries, especially Government-Linked Investment Companies (GLIC) because they provide *Shariah* compliant dividends to their Muslim investors. The effected GLICs are PNB, Malaysian Hajj Pilgrims Fund Board, and Employees Provident Fund (EPF). However, he had suggested a few initiatives that can consider boosting the participation of finance industry in *Shariah* compliant.

Firstly, is the formation of second listed Islamic universal banking group, differ from BIMB Holdings, which could be developed by Malaysia Building Society Bhd (MBSB), Bank Muamalat Malaysia Bhd, Malaysia Industrial Development Finance Bhd (MIDF) or one of the larger foreign-owned Islamic banks. Secondly, is the initiative to be listing of Islamic Development Finance Institutions such as Bank Rakyat and Bank Simpanan Nasional. Lastly, the separation of ‘Islamic’ or ‘i-share’ among banking groups that have sizeable Islamic finance activities embedded with them, such as Maybank, CIMB, and RHB (Borneo Post Online, 2017).

From the analysis, an exchange-traded fund (ETF) under *Shariah* compliant also needs a serious attention. Siddiqui in Bakar (2008) stated that Muslim investors are hardly investing in ETF due to the restriction and lack of product sponsors at the ETF market. Other than that, Islamic ETF in Malaysia is still at the preliminary stage and need further development to be explored. One of the initiatives is will there be any organization that would be responsible to play their role in Islamic ETFs to remove tax deficiencies and certain regulatory impediments (Diaw, Hassan, & Boon Ka, 2010). Furthermore, Director of Islamic and Alternative Markets of Bursa Malaysia, Encik Jamaluddin Nor Mohamad also stated that the trading in ETF is still very low in Malaysia, either in the form of *Shariah* nor conventional. He also made a few suggestions in order to make the ETF as one of the attractive securities for the Malaysian investors, which are by introducing instant diversification, cost-effectiveness and transparency of the securities (Yong, 2014). According to Hoff in Bakar (2008), in Asia, the development of Islamic ETF market is very slow due to the regulation and trading practices. Izlan in Bakar (2008) also added that investors did not have a full knowledge of ETF due to the new assets class (Diaw et al., 2010).

Together with the low percentage of the ETF, *Shariah* compliant Real Estate Investment Trusts (REITs) only represent 22.22% of a total number of securities under the industry. Based on previous researchers, the low participation of REITs in *Shariah* compliant is due to the inconsistency of United State economy and globally increasing

of interest rate (Chuweni, Ahmad & Chuweni, 2016). In addition, Malaysia had provided REIT legislative system for almost a decade, which composed of organizational rules, income and asset rules, distribution rules, gearing restriction, and other consideration. However, the guidelines provided are still not strongly implemented compared to Singapore or Japan. This is also the reasons for the low REIT market capitalization and low percentage for real estate portfolio in the Asia Pacific. It is important to revise the existing guidelines to encourage individual investors or institutional investors in choosing REIT market as one of their collective investment scheme; and to ensure that REIT in Malaysia can perform better like other countries in Asia (Rozman, Azmi, Razali & Mohd Ali, 2015).

Based on the results, the hotel industry is representing only 25% of *Shariah* compliant of total securities under Bursa Malaysia. This statistic is supported by Md. Salleh, Abdul Hamid, Hashim and Omain (2014) by arguing that *Shariah* compliant hotels (SCH) have lack of implementation in Malaysia. This problem is due to the uncertainties of government regulations, difficulties to meet Halal standard and absence of SCH standard. Not only in Malaysia, previous researchers, Henderson (2010), Rosenberg and Choufany (2009) and Birchall (2009) also supported that SCH has no proper standard because each hotel follows a different standard practices.

For instance, two Dubai *Shariah* compliant companies have different levels of Islamic services. For the first company, which is Almulla Hospitality, the levels of Islamic services at that hotel are more extensive, due to the no alcohol provided, adult entertainment, and gambling; they provide Halal food, qiblah direction, prayer time and separate recreation facilities for men and women. On the contrary, Rayhaan Hotel and Resorts provided only separate recreation areas for women and men and no serving alcohol at the hotel. As well as in Malaysia, there is no standard *Shariah* compliant due to the management of the hotel did not fully understand the concept of Islamic services, it is just one of the marketing strategies and they argued that *Shariah* compliant concept is only applicable for restaurants (Md. Salleh et al., 2014).

Not only that, the roles of government can also give impact to the SCH. The government had regulated that only hotels with a Halal certificate for the restaurant can cater for the events that are organized by the government. Although this might be a strategy to encourage the participation of hotels to obtain a Halal certificate, some of them would do so only to get the government events contract. The uncertainty regulations by the government not only give impact to the development of Malaysian hotels but also it will drive away the foreign investors and confuse local hotel operators. Furthermore, in Malaysia, there is a tedious process to obtain a Halal certificate by Jabatan Kemajuan Islam Malaysia (JAKIM), who is the body that is responsible for granting a Halal certificate in Malaysia. Hence, the applications of Halal certificate for

restaurants are not suitable for the hospitality industry. Zailani, Omar and Kopeng (2011) also stated that in Malaysia, there is a lack of knowledge provided for the practice of Halal or *Shariah* compliant of hotels.

### Limitations

The limitations for the “*Shariah* Investment-Pocketbook” was, the information provided are too limited due to the design of the pocketbook that are easy to carry but have a complete information about types of *Shariah* investment in Malaysia. However, this design is just a preliminary knowledge to the public on types of *Shariah* investment that are applicable in Malaysia. Next, there were limited exposures done by the regulatory bodies to enhance the *Shariah* investment in Malaysia. Due to that, public was not exposed to even the basic knowledge on the information regarding investment. This “*Shariah* Investment-Pocketbook” did not provide details information on how the interested public in investment to start their trading.

### Recommendations

Despite all the limitations, it is recommended that for future innovation that, there will be products that are suitable to load full of *Shariah* investment information in one design. Next, there is also a new design on providing *Shariah* investment product in a virtual form, which is also composed of how to acknowledge the public the procedures on making a *Shariah* trading that are appropriate with their capital. In terms of giving an acknowledgement to the investors, either they are existing, potential or foreign investors, this product will create forms of collaboration with the regulatory authorities (Bank Negara Malaysia, Securities Commission, and Bursa Malaysia), issuers (businesses, government and government agencies), and intermediaries (financial institutions, rating agencies, reporting accountants, legal counsels, trustees, and *Shariah* advisers). Indirectly, this collaboration is able to give a positive impact to those regulatory authorities, issuers, and intermediaries. Furthermore, in order to educate public about the *Shariah*-investment information, this product can be given to the educational institutions, provided that they can give an overview about the *Shariah*-investment to the students at the preliminary stage.

Not only that, the encouragement of participation by other entities in *Shariah* compliant business can be promoted through dissemination of the related information by mass media. In the modern society worldwide nowadays, the spreading of *Shariah* information through social media platform, electronic advertisement and application software can be done quickly. There are several advantages by applying this type of suggestion, which are less costly, content flexibility and speed, and able to provide multi-directional communication. Besides that, any seminar, training and classes also

perhaps very useful to the public as it is one of the approach to teach either rural or urban residents on the depth information about *Shariah* investment.

### Conclusion

The rapid growth of Islamic investment has encouraged many potential investors to start investing in the securities, and it also strengthens the Muslim's investors' confidence to invest in the companies that have *Shariah*-based principles. Muslim investors are not allowed to make an investment in the companies that are run their business based on alcohol, gambling, conventional financial services, entertainment, pork-related products, tobacco and weapons because all those practices are against the Islamic Law. The importance of development *Shariah* compliant is due to the Muslims population represent nearly a quarter of the world's population, but the financial assets that are based on *Shariah* compliant are less than 1%. It can be seen as the inconsistency fund industry in the world. Therefore, there is an urgency to develop the *Shariah* compliant to help investors, especially Muslims to save for later life and for their investment preferences to be expanded.

However, it is difficult to find any companies that strictly follow the *Shariah*-based principles (Usmani, 1999). Malaysia consistently always updated their Islamic regulations to suit specific circumstances faced by the Malaysians such as the changes of economic, political and social systems. So, the relevant authorities have to ensure that the regulations implemented not only benefits to the Malaysians, but also to the international investors. This initiative should be taken seriously by Malaysia to attract international investors to invest in the country, which is in line with government policies and initiatives to promote Malaysia as an international hub for Islamic banking and finance.

The implementation of “*Shariah-Investment Pocketbook*” in the hope that to give an early exposure to the users and public to enhance their participation in the *Shariah* investment. Moreover, this product will be able to strengthen Muslim's investors' confidence to invest in the companies that have *Shariah*-based principles. Malaysia is also able to attract international investors to invest in the country, which is in line with the government policies and initiatives to promote Malaysia as an international hub for Islamic banking and finance.

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