

PIDM's Islamic Protection Systems

Part 3: Islamic Deposits that are Protected by PIDM

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Islamic banks are financial intermediaries that accept deposits from customers and offer financing facilities to customers. In Malaysia, they are subjected to Bank Negara Malaysia's legal, Shariah and policy requirements.

Islamic deposits are broadly classified into demand and non-demand deposits. Demand deposits are deposit products that allow depositors to withdraw their money at any point of time, such as savings and current accounts. In contrast, non-demand deposits come with a maturity period. An example of a non-demand deposit is an Islamic fixed-deposit account.

Islamic deposits differ from conventional deposits due to Shariah requirements. Some of the requirements are the application of a Shariah concept or contract, and elimination of the presence of the interest element (or *riba* in Arabic) in a deposit product.

There are two common Shariah concepts or contracts that are currently applied to Islamic deposits by Malaysian Islamic banks:

- ◆ *Qard* (interest-free loan) – a *qard* deposit is where a depositor places a sum of money without a contractual profit upon full withdrawal. However, return or profit may be given to the depositor if it is a non-contractual gift from the Islamic bank. The *qard* contract is predominantly adopted or applied for demand deposits.
- ◆ *Tawarruq* (commodity trading for encashment) – a *tawarruq* deposit allows a contractual profit to a depositor. Such profit arises from commodity trading that is executed to enable such transaction. The *tawarruq* concept is commonly adopted or applied for Islamic fixed-deposits or other term deposits. However, banks have started to adopt the *tawarruq* concept for demand deposits as well.

Under the Islamic Deposit Insurance System ("IDIS"), deposit products such as Islamic savings, current and fixed deposit accounts are protected by PIDM. These are the typical deposits that are placed by the public in Malaysia for safekeeping in the banks. The products that are not protected by PIDM include negotiable instrument of deposits, structured products and deposits for interbank money market placements.

Other important facts about PIDM's protection of Islamic deposits under IDIS are as follows:

- ◆ PIDM protects Islamic deposits that are placed in PIDM's member banks only.
- ◆ PIDM protects deposits up to RM250,000 per depositor per member bank. PIDM's protection is automatic – no application or payment is required.
- ◆ PIDM protects Islamic deposits of a depositor that are held by a conventional bank offering Islamic banking products separately from his conventional deposits held with the same bank.
- ◆ Trust accounts, joint accounts and business accounts (such as accounts held by sole proprietorships, partnerships, professional practices and companies), are covered separately from individual accounts.

Depositors with higher financial risk appetites tend to look at investment products for better returns. However, do take note that PIDM DOES NOT protect placements in any investment products such as investment accounts and gold-related investment accounts, as PIDM does not protect investment risks.

In our next series, Part 4, we will share how PIDM sources for and uses funds raised for the protection of Islamic deposits.