An Understanding of Shariah Issues on Gold Investment: A Review

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Abstract: Gold investment is one of the great investment because of the value of gold in the society goes more than just economic, as it is also treasured as a storage and display of greed and culture. Gold actually is a precious metal which serves as together financial and real assets. In Malaysia, a country as practices of a dual financial system, gold investment has to face the issues of Shariah compliance. The gold investment in Malaysia, there are two different ways offers for the investors to invest which is physical gold and gold account “paper gold”. For physical gold, investor can hold their gold investment in the physical form. For instance, gold coins, gold bar and jewelry. For gold account, it is made through bank account. Comparatively, the Shariah compliance issues have been discussed to clarify the status of gold investment form the Islamic perspective. Hence, it serves as a good practices of investor's standard. The Shariah rulings on gold transaction and the parameter for gold investment were analyzed. This paper found that the financial institution operating gold investment still need to comply with the Shariah rulings and parameters in ensuring the certainty of the transactions and fairness to the customers.

Keywords: Gold Investment • Shariah Compliance • Shariah Issues

INTRODUCTION

Gold investment is one of the effective investment method for preservation of wealth and a store value during the economic volatility, mainly the high inflationary period. Gold is very unique and have a great features of gold, such as diversifier, safe haven inflationary hedge, universal acceptance and transportability have make the gold demand the superior choice for investment purpose [1]. On the other hand, gold also deemed to be a stable means in order to hedge inflation, storing intrinsic value and preserving wealth besides generating high level of return. In addition, gold offers great profits to an investor, whether in the physical market or as a part of investment instruments in the portfolio diversification. The value of paper money may fall and rise but the value of gold remains stable. It accomplishes the function of money and is accepted as a form of payment internationally.

As an investors, it is very important to educate yourself and understand the gold investment fundamentals. Gold investment could maximize your wealth if you have the knowledge and skills on your fingertips. It is very important to determine your aim of investing in gold before you start throwing cash into it. Are you a gold investor with the objective of expanding your assets? Or maybe you are investing gold just to trade in and out to reap profits in shortest term? Alternatively, people might investing as retail consumer in physical gold.

Actually, the gold has been discussed in many of research as an investment instrument, still lack of research covers in Malaysian perspective based on the real practice. Even though, the uniqueness of gold savings account as one of the method in gold investment in Malaysia justifies. Malaysia is practicing a dual financial system, so the Shariah compliance issues are discussed either than Malaysia an imperative hub for the global Islamic finance industry.

Problem Statement: Since prehistoric time, human are using the gold in trading and value keeping asset. Even current financial activities are always surrounding by the gold issue. Gold investment is generally really safety in...
term of investment and more robust and less risky as compared to another investment method. The investors choose the right products, which is the advantages surface. This is the critical as there are varieties of products when it comes to gold. Gold investment which is in line with the Shariah principles or compliance has been one of many concerns that Muslim faced today. For this reasons, before the investor or customer would like to enter in the gold investment, they should comply with the Shariah rulings. Generally, gold investment also refers to that part of income that not spent on consumptions but for obtaining a benefit further away in the future.

**Literature Review**

**Gold Market:** [2] defined that central banks hold a large proportion of gold reserves for several reasons economic security where gold maintains its purchasing power, portfolio diversification, physical security where gold is a highly liquid asset, provides confidence during economic uncertainty, secure value and as a hedging tool against economic crisis. As known that gold is 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 [3].

In Malaysia, the consciousness of people or investors has grown in the past few years. They started to realize the advantage of engage with gold trade. People will need to know the current gold price in order to take advantage on it where they can buy it at low price and sell it at high price later on. In the other hand, through time, gold price has its ups and down like any other investment instruments or commodities. It is impossible to deny that gold price is stable and has minimal fluctuation based on the volatility of economic and financial condition.

**Gold as a Safe Haven Asset:** Define by [4], the current financial hesitation and the gold price strength encourage investors to hold gold as a safe haven asset. 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). Defined by Capie et al. [4] analyze the role of gold as a hedging tool against the dollar, finding evidence of the exchange-rate hedging potential of gold. [5] examine a few of gold characteristics as a financial asset and find an evidence of the gold as an inflationary hedge. Their results suggest gold has criteria of zero beta assets and bearing zero market risk.

[6] defined that gold is a store of value against inflation. According to Kaufmann and [7, 8], they also defined that the price of gold depends on the inflation rate in future. In addition, this is also supported by Baker and Van-Tassel (1985) that the price of gold depends on the inflation rate in future although Kaufmann and Winters (1989) and Sherman (1983) also noted the price of gold is also influenced by other variables such as changes in the US rate of inflation, anticipated and unanticipated inflation.

**Gold as an Investment Instrument:** According to [9] reported that there are significant contributions of gold investment during economic uncertainty especially when the stock market slumps. The results emphasizes on the role of gold from a domestic context, especially for the purpose of designing financial investment portfolios. Defined by [9] assessed whether gold investment provides diversification, hedge, or safe haven benefit for the case of Malaysia using daily data from August 2001 to March 2010. In this case, their results indicate that at best gold serves as a diversification asset for Malaysian investors. In the examination, they found changing investment role of gold in recent years marked by global financial market uncertainties.

**Challenges and Issues in Shariah Perspectives:** There are many challenges and issues nowadays, many country in this world have been encourage their society and investor to invest in gold. This is because gold due to its characteristics of safe haven and inflationary hedge. For instance, China government is promoting different gold investment funds, giving investors access to overseas products and launching a global gold contract based in Yuan through the Chinese Gold & Silver Exchange. It is also happen to Malaysians, Malaysian government to continue the production of Kijang Emas as a national gold coin and to make it available and accessible to people through most of the domestic banks. Government has to take the action by disseminating the ideas of keeping and storing individual’s asset and wealth in gold.

In term of buying the physical gold, a challenging security issue as investors need to think about their gold storage. Based on the fact that most of the security deposit boxes in Malaysian banks are currently hired, there is an urgent need for the banks to increase the accessibility of the safe deposit boxes facility. Then, investing in physical gold would be very risky due to the security reasons.
There are many issues of Shariah issues for this type of gold investment product should be spoken as well. The seven providing banks in Malaysia, only one bank are confirmed to have been approved as providing Shariah-compliant products which is KFH Gold Account-i by Kuwait Finance House (KFH). It would be encouraging if the government through BNM set a requirement for the banks that offer gold savings account products to apply for the shariah compliance status.

Equally important to address the investors’ concern on the permissibility of the products based on the Islamic law, besides avoiding the elements of gharar in the transaction. In addition, Gharar may exist when the investors cannot withdraw physical gold from their accounts, which raise the question on the status of the gold, whether or not it really exists in the bank’s safekeeping.

The Shariah Parameter for Gold Investment in Malaysia:
Gold investment in Malaysia has controlled by The Fatwa Committee of the National Council for Islamic Religious Affair of Malaysia has decided to accept and acknowledge the gold investment parameters as follow:

i. General Conditions of Sale and Purchase:
In this way, gold investment should meet all exchange tenets outlined by Shariah which are the parties to the contract, the item and sigah (utterance). So, that transaction does not meet one of the pillars of trading, the transaction is considered void.

ii. Specific Conditions for Gold Investment:
Actually, gold is considered as ribawi items. Thus, the sale and purchase of gold must notice the following special condition need to follow:

- The occurrence of taqabudh (deliverability) between the two items involved in the transaction before the two parties separated from contract
- The sale and purchase must be conducted on the spot and cannot be delayed

In prevailing situations, any type of such gold investment account can fall into a figure Hukm (ruling), explicitly:

Haram and Void: In this perspective, if the gold is not yet owned by the bank and will only be accepted from a third party in another separate transaction. The initial of such investment account has become Haram and void, it is because the bank has sold something which is not in its fair possession and a Riba’ has happened since there is no element of ‘Taqabudfil Majlis’ for instance offer and acceptance during the same event. So, any such delay would bring to Riba’ an-Nasiah. As the conclusion, investor need to make sure the gold that is to be sold is in the bank’s rightful possession.

Haram and Void: If the gold is not sent, upon request, to the customer immediately upon opening of the gold investment account. For example if this happen, when the customer pays a certain amount of money to buy gold for 100 grams and activates his account, but the bank did not issue anything to prove the customer’s purchase and to prove that the sale has been concluded. In this situation, the bank has not given a written proof to signify that the customer now has the ‘tasarruf’ rights (the rights to sell the gold, which has been purchased, at any point of time).

Halal and Valid:
So, when both situations stated below are met:

- The bank rightfully owns the gold at the point of sale.
- The bank issues a proof of purchase, in the form of physical gold or certificate, to the customer and thus immediately gives the customer his ‘tasarruf’ rights.

The other four banks have a prospective to be shariah-approved provided that they meet the following conditions, explicitly:

Not to be Involved with Riba’ Activities: The gold must be in the real form (physical) which is in the custody of the bank and kept on behalf of the customer. The gold cannot be ‘utilized’ for any of the bank’s ribawi activities and a guarantee or confirmation on the matter from the bank or the bank’s Shariah Committee must be obtained either expressed or written. Important to know that, a customer should be able to ascertain from the ‘aqad (contract) on the type of contract entered with the bank, such as whether it is a wadiah, qard and others.

Enough Gold During Transaction: The amount of gold in the bank’s ownership must be ascertained to be enough during a particular sales transaction period. For instance, the bank has only 100 kilograms of gold at a particular point of time, but sells (with the opening of the gold investments account) to two different customers 100 kilograms of gold each. So, based on this
situation, only the first accomplished transaction is deemed as valid, while the second transaction is deemed as void.

**iii. Halal Method of Payment:** In this case, payment made by customers must be either in cash, immediate account debiting, local bank’s Islamic debit or credit card, or local cheque. So, any payment for such gold purchase using international cheques or Islamic credit card which takes more than three days for ‘settlement’ is prohibited according to the International Council of Fiqh Academy (ICFA). The three days is taken as the maximum accepted number of days for settlement, based on normal standard or 'Surf', to ensure the requirement under ‘taqabulfilhal’ is achieved. It is a *fatwa* that has been obtained from the opinion of the *Malikis* and the majority of *Fiqh* scholars worldwide.

The Gold Investments Account Holder must Be Paying Zakat: When the *hawl* is pleased or the obligatory *nisab* of 85 grams of gold is reached or exceeded, the account holder is obligated (*wajib*) to pay zakat. So, that is compulsory for gold investor.

**Methodology:** This paper used a data and information from previous research as a methodology to review this topic broadly. The collection for this particular conceptual paper might be from the distribution of questionnaire and parts of interview sessions with respective respondents include public, investor and expert. The information gathered from also come from journals, books and statistic form various resources. The data and result of this study are from the literature review and finding from various journal and articles.

**CONCLUSION**

Nowadays, with the uncertainty of economic situation, decreasing of crude oils and the environment of politic situation in this world, the gold investment one of the great way and method of investment vehicle for many people around the world. Nevertheless, gold also a popular metal and investment instrument. It is because, many people believe that gold is the stable way of preserving wealth, hedging inflation, storing intrinsic value and generating high level of return. Gold as an asset plays a very important role in an investor’s portfolio as it not only provides stability for returns but also gives an opportunity to maximize the wealth of the investor. Uniquely, either the traditional way of buying the physical gold, Malaysia also offered an exceptional platform of gold investment to the investors. Henceforth, this method of investment has a great potential to overcome the issues of security and storage.

Equally important, the *Shariah* compliance issues have also been discussed in various researcher and also people in academic area not only in the industry. Now, out of five banks, only one bank offer *Shariah* approved gold savings accounts which is Kuwait Finance House (KFH) in Malaysia. Nevertheless, this was based on a famous juristic view that reflects the exchange of Gold with paper currency as “Bayulsarf” (EiUÇåONY).

This study actually stressed for *Shariah* compliance and the issues for gold investment in any ways such as gold bar and gold account. Important to Malaysian to really aware and know the basic of gold investment in term of *Shariah* compliance. This is important for Muslim to a line with the Islamic ways.

**REFERENCES**