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## A Review on Sharia-compliant Gold Savings and Investment Models in Malaysia

All-Mu'izz Abas, Mat Noor Mat Zain, Salmy Edawati Yaacob,  
Mohammad Zaini Yahaya, Nik Abdul Rahim Nik Abdul Ghani

Research Centre for Sharia, Faculty of Islamic Studies, Universiti Kebangsaan Malaysia,  
43600 UKM Bangi, Selangor Darul Ehsan, Malaysia

Corresponding Author's Email: allmuizzabas@gmail.com

### Abstract

Public awareness of gold savings and investment is gaining ground in Malaysia. This kind of mind clearly knows and well aware of the significance and advantages of gold, which is regarded as an inflation-proof currency. By offering a variety of gold savings and investment products, financial institutions other than banks have multiplied in recent years. Along with the community's potential exposure to scam syndicates in the gold investment industry, as Muslims they have an additional obligation to exercise caution and steer clear of any dealings or transactions involving usury. Thus, this study was done to identify the Sharia contracts and concepts found in the existing Sharia-compliant gold savings and investment models in Malaysia. This study used a document analysis approach such as articles, journals related to the theories, applications and issues of *muamalat* in Islam. The findings of the study revealed that most models of gold savings and investments in Malaysia adhere to the legitimate Sharia principles. The Sharia contracts that need to be focused on the application of these models are *bai' sarf*, *musawamah*, *wa'd*, *wakalah*, *wadi'ah*, *qard*, *ujrah* and *tawarruq*. The findings of this study are very valuable for future research and development work on the Sharia-compliant gold savings and investment model as a source of information and a manual.

**Keywords:** Gold Savings, Investment, Sharia-compliant

### Introduction

Dinar is a gold-based Islamic currency that was used in Medina during the time of the Prophet Muhammad (PBUH). Umar al-Khattab determined that the dinar must be composed of 24-karat gold (999.9) weighing 4.25 grammes per dinar. The value of dinar gold has remained stable, unaffected by a fall in the value of money that indicates zero inflation. For instance, if a goat cost 1 dinar during the Prophet's (PBUH) time, then the price of a goat can still be obtained with a value of 1 dinar nowadays. This indicates that dinar gold reserves can be considered as inflation-proof, best asset, and protection against currency devaluation. Therefore, the true Islamic currency is based on gold and silver, precisely the dinar and dirham.

Due to their great value and versatility, gold and silver which be used as currencies are increasingly difficult to obtain. Hence, it became harder to generate the dinar's currency and

the dirham's currency based on gold and silver, and eventually the official currency gradually turned to fiat money. Printed banknotes have replaced the physical nature of gold and silver in fiat currencies. The subject of currency has become highly complex as the features of today's currency have shifted from robust gold-backed money to an unreliable fiat currency. Despite the fact that the use of gold dinars and silver dirhams in the global financial system ceased in 1924 after the fall of Ottoman Empire, the reliable currencies in Islam have always been gold and silver. Nonetheless, the current economic circumstances appear to show that gold is better being utilized as an asset in the form of a commodity rather than as money.

In Malaysia, former Prime Minister Tun Dr. Mahathir Mohammad originally broached the idea of the usage of gold currency around the year 2000, following the economic crisis that led to the devaluation of the currencies of Asean nations in 1998 (Yaacob, 2012). Gold has been preferred for a variety of purposes, therefore the local community in Malaysia also not lagging behind views gold savings as a promising investment, specifically for long-term portfolio due to its high value. Physical gold and gold savings accounts are the two most popular methods of gold investment and commonly used in Malaysia presently (Hashim, 2009). Physical gold assets are often classified as gold coin, gold bar or bullion and jewellery. It is different from opening a gold savings account at any banks or financial institutions other than banking institutions that offers such products. Through this method, investors do not receive physical gold directly, but the accumulated gold weight (in grammes) will be recorded in their gold savings account based on how much (Ringgit Malaysia) the investors have purchased. In reality today, it is not just banks that have such products, gold companies that are not banking institutions also offer this kind of products. As a consequence of the proliferation of financial institutions consisting of banks and corporations that offering a vast array of gold savings and investment products at the moment, Muslim community should be careful and avoid themselves from getting involved in fraudulent schemes and usury-based transactions.

### **Gold Savings and Investment Models in Malaysia**

Literature review begin with the study of the implementation of gold investment accounts provided by the Kuwait Finance House Malaysia Berhad (KFHMB) Bank. In the implementation of the KFHMB Bank gold savings account, *bai' sarf* contract and *qard* contract were applied (Abdullah, 2012). Clients are required to have a savings account or current account first with a minimum balance of RM250 before opening a gold account at KFHMB. Clients will purchase grammes of gold from KFHMB in accordance with the terms of the *bai' sarf* contract. Gold transactions are conducted exclusively at KFHMB bank counters, and there are no sales or purchases via the online banking system. The clients' account will reflect the purchase of gold once it has been deposited in accordance with the *qard* contract. This sets KFHMB bank as a debtor (*muqtarid*), while the client is a creditor (*muqrid*). When the gold is in the custody of *muqtarid*, it signifies the bank has the authority to use the gold. The gold that has been deposited into the clients' account is analogous to a deposited fiat money position. This means that gold can be freely used as an intermediary in other transactions, hence KFHMB bank is free to use the gold as an exchange item for next clients. In addition, a technical issue arises in the purchase of gold through the KFHMB Gold-i account when *qard* contract and akad *bai' sarf* contract are in one form, as the matter is similar to two contracts in one contract which is prohibited by Islamic law. Abdullah (2012) suggested that KFHMB should create two separate documents to differentiate between *al-sarf* and *al-qard* contracts in order to avoid misunderstandings and confusion, and also to further strengthen its implementation

operations. However, the findings have shown that the entire implementations of KFHMB gold investment account are Sharia-compliant (Baharom, 2018).

The subsequent research concentrates on Maybank Islamic Berhad's Sharia-compliant gold savings account, Maybank Islamic Gold Account-i and also know as MIGA-i. This product allows clients to buy and invest in gold with purity of 999.9 as low as RM10 without having to keep the gold themselves or worry about its safety. According to the product disclosure sheet, four contracts have been applied to assure that the product is Sharia-compliant (Maybank Islamic Berhad, 2021). MIGA-i implemented *wa'd* principle, which requires the client to agree to acquire gold at a price specified by the bank by debiting the client's savings or current account. Once the client has placed the order, the bank will acquire gold at the purchase price (Y) from gold supplier and will sell it to the client at the sale price (X) determined by the bank. A *musawamah* transaction occurs when the bank sells gold to a client at its own fixed price, without disclosing the purchase price of the bank's gold from the gold supplier. There is a spread which refers to the difference between two prices, similar to some types of trade. Typically, the purchasing price (Y) is less than the selling price (X). Significantly, the execution of sale contract is subject to the concept of *bai' sarf* whereby the payment and delivery of gold (*taqabud*) must be done between the bank and the client directly and promptly without delay. The client's savings or current account is debited the bank's selling price. At the same time, the client's gold account is credited instantaneously and the amount of the purchased gold will be displayed. Besides that, Maybank does not provide gold and keeps it on its own, but a third-party is appointed to carry out the operation. Therefore MIGA-i products applied the *wakalah* contract, in which the bank has been appointed by the client as an agent to find and arrange with third-party security vault service provider to safeguard clients' physical gold. In addition, this concept of *wakalah* also involves a fee (*wakalah bi al-ujrah*) in the modus operandi of MIGA-i, whereby the bank charges clients for acting as an agent in search of a safety vault service provider to secure their gold. In addition, the *ujrah* principle is also applied when clients make any of these services over the bank counter; physical gold redemption, getting physical gold through delivery service, gold transference between accounts, sale and purchase of gold. However, for those who purchase gold via online transaction, there is no charge will be imposed by the bank. On the whole, MIGA-i adheres to the Sharia regulations and there are no concerns to bring up.

Further study focuses on Muamalat Gold-i which is offered by Bank Muamalat Malaysia. Muamalat Gold-i (MG-i) has two methods of gold savings which are by having physical gold and gold savings account. Clients can purchase MG-i physical gold in weights of 5 grammes, 10 grammes, 20 grammes, 50 grammes, and 100 grammes only through any Bank Muamalat's branches. While through Muamalat Gold-i savings account, customers can purchase gold as low as RM10. Purchases of gold may be made at the Bank Muamalat counter or via i-muamalat internet banking which is accessible 24 hours a day and depending on the availability of current gold stock. According to the product disclosure sheet (Bank Muamalat Malaysia, 2022), *wakalah* is the essential Sharia principal used in MG-i accounts in regard to the bank's responsibility as the representative to deal with gold supplier. Similar to the operation of Maybank's MIGA-i, *wakalah* contract is applied in which the bank has been appointed by the clients as an agent to seek and acquire gold for them from a third-party which is gold supplier, since the bank does not provide its own gold. Therefore, *bai' sarf* contract carried as usual when a client purchases gold from a bank. The client's current or savings account will be debited the selling price of the bank. Then, the client's gold account is directly credited and the value of gold purchased is reflected. Bank Muamalat also applies the

*wadi'ah yad al-amanah* contract for MG-i accounts as the bank's responsibility to safeguard clients' gold in the bank's vault. The bank only acts as the custodian (*wadi'*) of the depositor's assets (*mudi'*), therefore the bank is not permitted to profit from the client's deposited gold without their knowledge and consent. Generally, the entire concepts of Muamalat Gold-i align to the Sharia standards and there is no any objection to address.

The following research highlights on Al Rajhi Gold-i which is offered by Al Rajhi Bank Malaysia. In order to acquire this commodity, clients can purchase it on a *musawamah* contract basis, in which the bank has specified different purchase and sale rates. Al Rajhi Bank does not provide online gold trading services like other banks. Therefore, all the transactions should be done at bank counters only. The purchase of Al Rajhi Gold-i can be made by debiting the client's savings or current account. The minimum amount of gold a customer can purchase is 10 grammes initially and a multiple of 5 grammes thereafter. *Wakalah* contract is one of the Sharia concepts applied in Al Rajhi Gold-i transactions according to its product disclosure sheet. Similar to the operation of the Maybank MIGA-i and Muamalat Gold-i products, clients appoint the bank as an agent to purchase gold for them from a third-party which is gold supplier, since Al Rajhi Bank does not provide gold on its own. The *wakalah* contract also applied when clients decided to let Al Rajhi Bank safeguards their assets. Thus, the clients are required to fill an agreement and there will be a charge. This charge can be termed as a bank-imposed savings fee, even if it is not mentioned on the product disclosure sheet. The bank needs to ensure that the client's assets are well preserved and there should not be any circumstances that are detrimental to the value of the gold. This has been defined as the contract of *wadi'ah yad al-amanah*. In the product disclosure sheet (Al Rajhi Bank Malaysia, 2022), it is mentioned that Al Rajhi Bank is not responsible for any damage or loss to the client's gold that have been kept by the bank. However, if it is found or proven that the bank's negligence caused the loss or damage to the gold, the bank shall replace it with the same quantity and quality. Essentially, the mechanism of Al Rajhi Gold-i meets the Sharia requirements and there are no issues that need to be tackled.

Today, gold savings accounts model also has been practised by gold companies which are not banking institutions. For instance, Public Gold Malaysia is one of the leading gold companies in Malaysia that has been using this model since 2014 (Junos, 2019). Public Gold Malaysia has introduced an easy way or a simple method of purchasing gold for everyone through the Gold Accumulation Programme (GAP) (Basri, 2017). Through this method, clients' money will be deposited into their GAP accounts as *hamish al-jiddiyyah*, also known as security deposit. While, the *bai' sarf* contract will be happened after the money has successfully been deposited into the clients' GAP accounts whereby Public Gold will immediately record the corresponding amount of money and grammes of gold in the clients' GAP accounts. Public Gold gives clients the opportunity to earn gold with an affordable capital as low as RM100 through GAP account. This implies that clients are not required to have gold with a minimum weight based on a gramme scale, such as 1 gramme, 5 grammes or 10 grammes. Public Gold has set the minimum price of gold that clients can purchase as low as RM100. The clients are then able to withdraw their gold in the form of a dinar or gold bar whose weight is limited to a particular grammes. Basically, all clients share the gold kept by Public Gold together which means their ownership are mixed (*musha'*). Basically, each client shares the gold kept by Public Gold together which means their ownership are mixed in a single gold bullion. Their golds are not allocated by grammes of their purchases, but their ownerships are only determined by their respective ratios in a single gold bullion. Due to the difficulty of creating gold in small quantities and to avoid intruding on the rights of others, to

set a minimum limit for redemption of physical gold is allowed (Badri et al., 2022). Moreover, there is no fee (*ujrah*) will be charged on the GAP account holders.

In addition, Public Gold Malaysia offers a plan called Easy Payment Purchase (EPP) that locks in the price of their gold products within specified promotions. Clients should book and agree to purchase gold at a future date at a specified price under this plan. Therefore, the clients' booking is also known as their agreement (*wa'd*) to purchase the gold. Their monthly contributions will be regarded as security deposit (*hamish jiddiyyah*) instead of installment payments for the purchase of gold (Rudy, 2020). There is no sale and purchase agreement between Public Gold and the clients throughout the payment procedure. The clients can get their gold from Public Gold after the completion of the security deposit with a mutually agreed-upon sum. Only at this moment does the sale and buy transaction (*bai' sarf*) actually occur, in which the clients' entire security deposit are considered as gold purchase payment to Public Gold and Public Gold will release the gold to the clients. All the transaction structures, terms and conditions, standard operating procedures, transaction documents as well as the physical vault of gold products from Public Gold are reviewed as compliant with the Sharia rules and requirements by Amanie Advisors Sdn. Bhd (Shafie, 2017).

Another well-known gold company that many gold investors currently favour at the moment is Quantum Metal Malaysia. Quantum Metal has gold savings account which known as Gold Storage Account (GSA) and gold investment product which is known as Gold Asset Enhance (GAE). Both products are subject to the terms of the *bai' sarf* contract. At Quantum Metal, a client can begin gold savings as low as RM10 and the purchases of GSA must be made via online system only. The grammes of gold will be displayed in the client's GSA account following to the client's purchase price. Once the client's online transaction is successfully completed, Quantum Metal will allocate the purchased gold to its official gold vault at Brinks Singapore. This demonstrates the application of the *wakalah* contract when clients assigned Quantum Metal to manage their gold deposits at Brinks. Besides that, clients will not be charged by Quantum Metal as long as their gold are kept in the GSA account. Meanwhile, Quantum Metal's investment product which is Gold Asset Enhance (GAE) grants investment fund to clients so that they have the potential to earn multiple returns on their investments. Based on the Sharia pronouncement issued by ISRA Consulting (2020), GAE product provides clients investment capital to acquire more gold via *tawarruq* transactions. To get the investment fund for the clients, this method applies *wakalah* contract whereby the clients will assign Quantum Metal as their agent to purchase certain commodities from supplier A at price X through Bursa Suq al-Sila' (BSAS) and then Quantum Metal will sell the commodities to the client at price X plus a management fee of 3.5% per annum (*ujrah*) to be paid on the deferred payment terms as agreed upon. After that, the clients also will appoint Quantum Metal as an agent (*wakalah*) again to sell the commodities to supplier B at the same price as X directly. Hence, the returns from the sale of the commodities were leveraged to fund Quantum Metal investors who selected GAE products. All the concepts applied in both products are parallel to the Sharia rulings. Yet, there is no clear indication on the product disclosure sheet as to whether or not the clients' gold kept by the company will be pledged and recycled.

### **Analysis of The Sharia-Compliant Gold Savings and Investment Models**

Based on the researchs done, the system of a gold savings and investment should be subjected to the conditions of *bai' sarf*. This is due to the fact that every transaction will involve the *ribawi* items which are gold that can be traded and exchanged as currency. Thus,

the transfer of ownership between fiat currency and gold must occur immediately. This element is known as *taqabud*, which refers to the handover procedures between two contract parties who are purchasing and selling, or between a contract provider and contract recipient (Azizi & Ahmad, 2018). Transactions must also be executed on a spot basis, and neither the pricing nor acceptance of gold should be delayed.

*Bai' musawamah* occurs when a trader either from a gold-selling company or bank institution acquires gold from a gold supplier at price X and then sells the gold to a client at a price Y that is often known to be higher than price X. When a trader sells gold to a client at its own predetermined price without stating the purchase price from the gold provider, there will be a spread that represents the profit and the cost of trading execution. If the trader company's gold supply is inadequately stored, the *wa'd* concept will be applied as an agreement for a client to acquire gold from the trader at price Y. The concept of *wa'd* is applied to avoid a misconduct of the *bai' sarf* standard when a sale and purchase transaction occurs without the existence and ownership of gold within the company. Once a client has placed an order, the gold company will purchase gold at price X from a gold supplier and will sell it to the client at price Y.

The concept of *wakalah* is also applied in the application of the gold savings and investment model. Since pretty nearly all banks and gold companies do not have their own gold reserves, they commonly will import from third-party gold providers. Thus, they will act as agents to manage their clients' sale and purchase of gold. This concept is different from *bay' musawamah*, as the gold companies do not set the depreciation of the gold price based on the difference in their purchase price from the gold supplier and the selling price to the clients. If a gold company acquires gold at price X from a gold supplier, then the gold also will be sold at price X to the client. Likewise, if a gold company is incapable of keeping the clients' gold, the *wakalah* contract will take place whereby the gold company becomes the clients' designated representative to manage and preserve their gold at the third-party's gold vault.

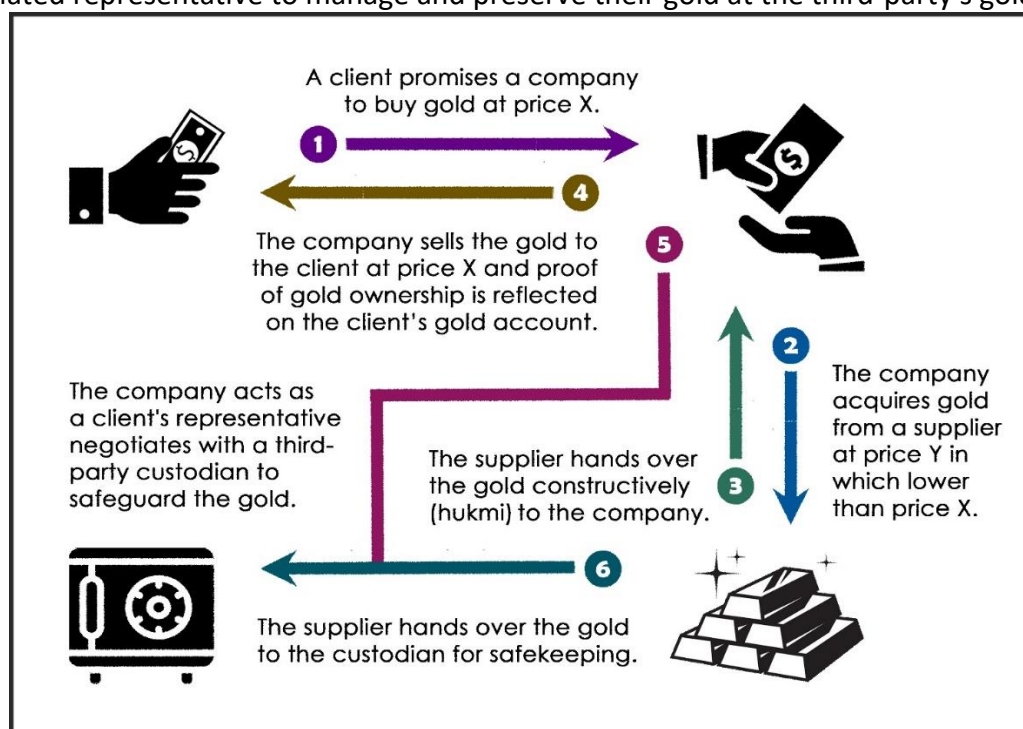


Figure 1: The Application of *Wa'd*, *Musawamah* & *Wakalah* in Gold Savings Account

As presented in Figure 1 above, *wa'd*, *musawamah* and *wakalah* contracts are usually applied in the modus operandi of a gold savings model. *Wa'd* contract will take place at the beginning of the gold buying procedure when a client promising to purchase the gold from a gold company at price X later. Then, the gold company will acquire the amount of gold requested, from a gold supplier at price Y in which lower than price X. In this part, the transaction will be arranged under a *musawamah* contract. After that, the gold company will sell the gold to the client at price X and make a profit from it. As previously stated, a gold company typically acts as a clients' agent to keep and preserve their gold in a secure third-party vault. Thus, the applicable transaction here is a *wakalah* contract.

During the period when the clients' gold is taken care of by the bank or the gold company, the *wadi'ah* contract also will be applied either by *yad amanah* or *yad damanah*. The *wadi'* which is a bank or the gold company as a custodian shall not earn profit or take advantage of the commodities it manages without the consent of *mudi'* which is the client. If the stored gold is not subject to the *wadi'ah* contract, as an alternative contract that can be used in the gold savings and investment model is *qard* contract. Upon completion of the purchase of gold, a client as a *muqtarid* or a debtor will hand over the gold to the bank or gold company which is acting as a *muqrid* or a creditor. This contractual term will allow the bank or gold company to use the client's assets. The bank or gold company reserves the right to take advantage of the gold entrusted over by the client, even if it is reused in other trade transactions. Yet, one of the implications of this contract will be problematic if the gold owned by the *muqrid* is insufficient to cover the sum requested by the *muqtarid*. In terms of regulations, the *muqrid* has no problem extending the transference of lent gold to a later date, whereas *muqtarid* may have difficulty retrieving their gold immediately.

A bank or gold company can also impose a fee or compensation on clients as long as their gold are taken care of by the bank or gold company. This term known as *ujrah* which is widely implemented and referred to a bank or gold company's service fee for securing the clients' valuable assets. *Ujrah* can even be levied as management or maintenance costs on behalf of the bank or gold company, particularly when clients intend to redeem their physical gold. Most banks and gold companies will place the gold of their clients on an unallocated basis. Thus, a single gold bullion is owned by more than one client jointly and their ownership are mixed in (*mal musha'*). Figure 2 below demonstrates how *mal musha'* can be described using a sample of 1 kilogramme of physical gold being shared by eight individuals with different gold gramme purchase ratios.



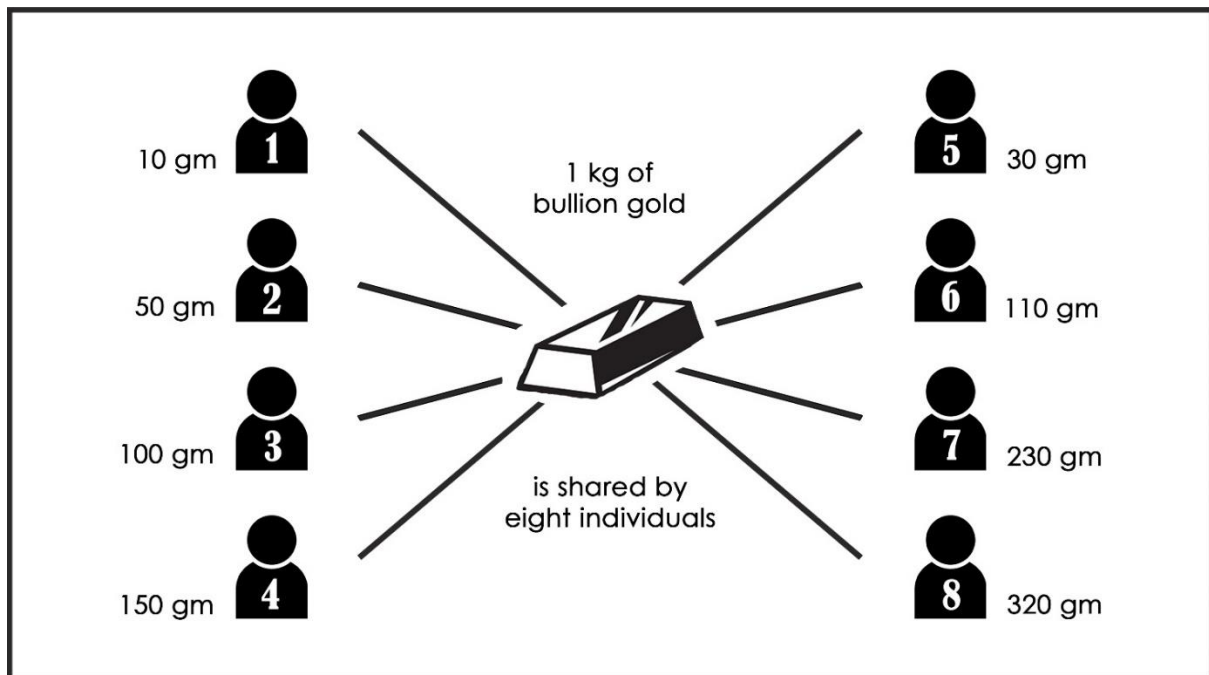


Figure 2: A Joint-ownership Over a Bullion Gold (*Mal Musha'*)

Commonly, their ownership of gold is determined by tagging or labelling of their ownership ratios within a single gold bullion instead of physical separation by the gramme weight of their acquisitions. The Shariah Advisory Council of The Securities Commission Malaysia had resolved that the ownership over *mal musha'* which is determined via specific percentage is permissible (SAC, 2021). Due to this condition, banks or gold companies are allowed to set a minimum withdrawal limitation on gold redemption of clients and they have a right to impose a fee (*ujrah*) on their clients. This is due to the fact that they have to go through the difficult process of producing gold at a small amount and to avoid harming the rights of those who share an equal position on one bullion of gold. After redeeming gold, the execution of *ujrah* typically takes place when clients request for shipment of their actual gold to the address of their preference.

Occasionally, the concept of locked-in price is also practised by some gold companies to promote their products. This concept must be thoroughly examined especially at the moment of the actual sale and purchase of gold to ensure it is not against Islamic law. Locking in price is permissible as long as the advance payment doesn't count as part of the gold purchase payment at the moment. To convey this concept, *wa'd* contract is applied as the client's agreement to purchase gold in the future at an agreed-upon price. Hence, the client's down payment throughout the entire period of the gold booking will be recognized as deposit security (*hamish al-jiddiyah*) until sum of the payment is sufficient to cover the agreed-upon purchase price. The *bai' sarf* contract only applies after the client has completed the last payment of the deposit security. All amounts of deposit security will be taken as actual payment for the purchase of gold as promised by the client at previously agreed-upon price. If the client wishes to terminate the deal or does not intend to continue the *wa'd*, the entire *hamish al-jiddiyah* must be returned to the client. Nonetheless, gold companies have their right to charge losses based on reasonable actual management costs. This matter needs to be approved and verified by Sharia advisor.

Regarding the permissible investment method under Islamic law, there are gold companies that use the concept of *tawarruq*. The procedure of this concept is challenging and must undergo a rigorous scrutiny process by Sharia-compliant advisory organisations. This concept offers clients with the opportunity to purchase more grammes of gold using the cost liability lent by the gold company. On occasion, a Sharia-compliant contract has to be restrained if the implementation can contribute to other harms (Hashim, 2022). The gold investment product based on the concept of *tawarruq* is not forbidden in terms of its structure, even if the clients' gold is pledged as collateral (*marhun*). The collateral serves as a security guarantee against the clients' indebtedness to gold companies, until their financing loan has been completely repaid. Yet, if there is an element of recycling toward clients' pledged gold (*marhun*), the side effect of such investing practice is risky and could be detrimental to clients. If a gold company goes broke, clients can only partake in the claims made to the extent of the total paid-up capital held by the company at that time. Although the pillars and conditions of this investment strategy are met in accordance with Islamic law, such transaction should be disallowed in line with the principle of *sadd al-dhari'ah* (blocking the mean), which is to prevent clients or investors from being harmed. As strongly advised by Hashim (2022), in order to ensure that recycling of *marhun* does not occur, gold companies need to take proactive action by appointing an independent and licensed trustee to look after the quantity and quality of the clients' gold are always maintained in an adequate amount. This concept of gold investment must consistently be evaluated to guarantee that the recycling of *marhun* is avoided.

## Conclusion

According to the findings of this study, Sharia-compliant gold savings and investment models in Malaysia meet the standards and apply the Sharia concepts such as *bai' sarf*, *musawamah*, *wa'd*, *wakalah*, *wadi'ah*, *qard*, *ujrah* and *tawarruq*. Banking institutions and gold companies need to obtain Sharia-compliant certification from an authorized Sharia consultant or Sharia advisory firm for each gold product they offer. This is to ensure Muslim clients able to avoid usury transactions. The principles for each gold product provided must comply with the standards set by the Sharia Advisory Council of Bank Negara Malaysia (SAC) such as the conditions for the imposition of service charges (*ujrah*), loss charges (*ta'wid*) based on actual management costs etc. By presenting their product disclosure sheets, gold companies should emulate the example of banking institutions in disclosing the whole transaction structures and Sharia concepts used in their products. Banking institutions and gold companies also should provide distinct contract forms to clients separately in order to avoid the occurrence of multiple contracts at a single contract process. Existing contracts cannot be on the same sheet or under one heading and only one client's signature is used to mark the client's consent for all such contracts. Studies on banks and companies that are involved with the trading of gold products such as gold savings and investments are necessary to be continued, so that Muslim community can determine whether or not the services they provide are safe and comply with the Sharia law.

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