

Product Disclosure Sheet of Islamic Bank in Malaysia: Home Financing

Muhammad Fakhirin Che Majid (Corresponding author)
Islamic Business School, College of Business, Universiti Utara Malaysia, 06010 Sintok,
Kedah, Malaysia
Tel: +6017-9140143 E-mail: muhammad_fakhirin@oyagsb.uum.edu.my

Muhammad Nasri Md. Hussain
Islamic Business School, College of Business, Universiti Utara Malaysia, 06010 Sintok,
Kedah, Malaysia
Tel: +6019-4425666 E-mail: mnasri@uum.edu.my

Nor Hayati Ahmad
Islamic Business School, College of Business, Universiti Utara Malaysia, 06010 Sintok,
Kedah, Malaysia
Tel: +60124848419 E-mail: nor.hayati@uum.edu.my

Muhammad Ahmar Ali
School of Business Innovation and Technopreneurship, Universiti Malaysia Perlis, 01000
Kangar, Perlis, Malaysia
Tel: +60132002598 E-mail: ahmar@unimap.edu.my

Abstract

The diversity of financial products offered by the financial service providers along with the upwards trend of home financing in Malaysia has significant relationship with information disclosure about the products. Consistency in disclosing essential information is aimed at minimizing the mis-selling of financial products to avoid *gharar* (ambiguity). Therefore, the purpose of this study is to highlight the practice of disclosing information of the home financing products by five major commercial banks in Malaysia which are Maybank Islamic Berhad, CIMB Islamic Bank Berhad, Bank Islam Malaysia Berhad, Public Islamic Bank Berhad, and AmIslamic Bank Berhad. The study employs qualitative method whereby secondary data were gathered from selected Islamic Financial Institutions (IFIs) websites. It reports the evaluation of the types of information which have been disclosed in the Product Disclosure Sheet of each product and the comparison between all five banks. Data gathered were

analysed using frequencies via SPSS version 20. The findings show that four out of five banks have published the Product Disclosure Sheets (PDSs) in their respective websites. The types of information disclosed by all banks slightly vary from each other. However, AmIslamic Bank Berhad appears to be a highly disclosed institution that relates to home financing facility, while Bank Islam Malaysia Berhad disclosed the least information in the PDSs. Besides, CIMB Islamic Bank Berhad is the only bank which did not make the PDSs available in their website.

Keywords: Product Disclosure Sheet; Home Financing; Information; Qualitative Method

Introduction

Disclosure by definition is the act of making something known to public which has privately been hidden previously. In addition, it is information or a fact which was previously a secret that has been made known to users of related information. In fact, Dymott (2010)

reveals that information delivered to the investors is the meaning of disclosure. Study on disclosure has been conducted by prior researchers on corporate social responsibility, financial reporting, corporate governance, chairman's statement, risk management, voluntary disclosure (Abdul Hamid, Ismail & Abdul Rahman, 2002; Ismail, Tayib & Adon, 1999; Darmadi, 2013; Ismail, Abdul Rahman & Ahmad, 2013; Fitrianti & Alamanda, 2013; Ahmed Haji & Mohd Ghazali, 2013; Wan Abd Rahman, Mohamed Zain & Yaakop Yahaya Al-Haj, 2011; Hassan & Harahap, 2010) for various industries including banks and financial institutions sectors.

Malaysia has practised dual banking systems which are conventional and Islamic. Regardless of the types of system, the systems render both banking systems to gather and provide information to run the bank efficiently (Semenova, 2012). With a variety of products introduced to the consumers, it is proven that information is significant to be disclosed to the customers. The information whether potential or existing is required in order to make decision.

For over 30 years, Islamic banking in Malaysia has a significant number of full-fledged Islamic banks which fundamentally uphold that the operation of the bank should comply with Islamic law. The fundamental principles are avoiding the element of *riba* (usury), *maisir* (gambling), and *gharar* (ambiguity) (Islamic Finance, 2010). The types of product offered by Islamic bank can vary from financing, deposit, investment and safe deposit box.

According to Monthly Statistical Bulletin (2015) published by Bank Negara Malaysia (BNM), home financing shown to be the highest demand by the consumers compared to the other types of financing such as hire purchase, personal financing and syndicated financing, to mention a few. In addition, the data from January 2015 until April 2015 showed upward trend of the financing amount which are RM79,421.10, RM80,541.70, RM82,552.00, and RM84,165.50

respectively in million ringgit measurement. It can be concluded that the information about the product is significant to the consumers in the process of making the right decision whether to buy an asset or not and/or whether to choose other assets to acquire. Hence, this paper presents a comparison analysis on Product Disclosure Sheet of five major banks in Malaysia which cater for home financing product offered by these banks. Therefore, the objective of the study is to evaluate the type of information provided in the Product Disclosure Sheet in a single form of evaluation.

Kim and Varaiya (2006) have examined insider timing hypothesis by investigating the trading activities of insider during the period of corporate share buyback trading. By adopting multiple regression analyses, the result showed the net number of shares sold by insiders has increased in a fiscal quarter when the firm in the market engaged in share buyback trading. Furthermore, information asymmetry between insiders and outside shareholders have given unfair advantage and provided the right time to sell their shares over to outside shareholders since these insiders know the firms' actual buyback activity. However, this study should provide conclusive evidence about the direction of causality among option exercise, corporate share buyback, and insiders' selling activity. Disclosure on buyback transaction records is suggested to be disclosed without certainly having to have other regulation to cater the said disclosure.

In investigating the effect of voluntary and timely disclosure on the cost of debt for the South African setting, Guidara, Khlif, and Jarboui (2014) used 20 South African listed non-financial companies for the period of 2008-2011. Based on content analysis technique, it reveals that the increased level of voluntary disclosure in annual reports is related with lower level of cost of debt. Meanwhile, timely disclosure showed an insignificant effect on the cost of debt. Nevertheless, voluntary disclosure which is made available in a timely manner increases

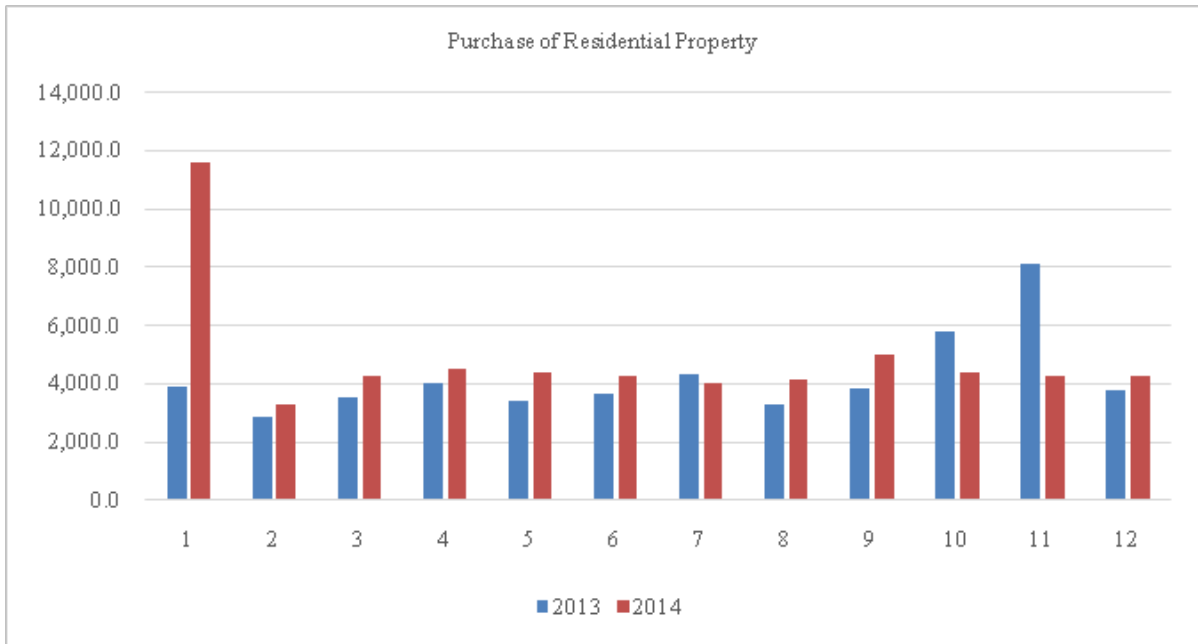


Figure 3.1 Comparison of Financing for Residential Property Purchased from Islamic Bank: 2013-2014 (Sources: BNM Monthly Statistical Bulletin April 2015)

the importance of information communicated by firm and contributes accordingly to the reduction of the cost of debt. Similarly, both timeliness and the extent of voluntary disclosure is the key component of corporate transparency that can influence creditors' behaviour. However, the studies should ensure that the number of companies is not limited so as to increase the validity of findings and inferences as well as should not use self-constructed voluntary disclosure checklist.

Regarding the use and usefulness of Product Disclosure Statements (PDS) in the financial planning context, changes in PDS to have shorter information has been introduced for certain investment products (Gallery, Gallery & Irving, 2013). Complexity and lack of readability of PDS are the factors that lead to these changes.

Methodology

This research used quantitative method and data were collected from Islamic Financial Institutions (IFIs) websites which are five major commercial banks in Malaysia providing Islamic home financing facility. Other than that, the statistic of Islamic home financing was gathered from Bank Negara Malaysia (BNM)

website. This method refers to secondary data and content was analysed using SPSS version 20.

Results & Discussion

The Trend of Home Financing

As per BNM Monthly Statistical Bulletin published in April 2015, presented in Figure 3.1, it tends to show that there were stable trends of up and down for the purpose of financing the purchase of residential property for the month of January until August 2013. Conversely, there is an upwards trend from September to November which are RM3,833.1 million to RM8,127.3 million before it reduced to RM3,764.4 million in December 2013. The percentage of increment is 112%. In fact, as reference on both figure and table, it can be concluded that the financing took by consumer to acquire a residential asset was highly demanded.

Table 3.1 Comparison of Financing for Residential Property Purchased from Islamic bank: 2013-2014

Period	Purchase of residential property		Variance
	2013	2014	
Month	RM million	RM million	RM million
1	3,925.3	11,573.3	-7,648.0
2	2,844.1	3,283.6	-439.5
3	3,559.4	4,249.7	-690.3
4	4,004.8	4,481.7	-476.9
5	3,434.7	4,375.6	-941.0
6	3,673.1	4,240.8	-567.7
7	4,315.5	3,993.6	321.9
8	3,261.2	4,121.6	-860.4
9	3,833.1	4,987.5	-1,154.4
10	5,817.4	4,410.4	1,407.0
11	8,127.3	4,260.3	3,867.0
12	3,764.4	4,261.1	-496.7

For the year 2014, the financing provided by banks to their customers in the month of January was the highest amount compared to the other months. It was RM11,573.3 million. It shows downturn of financing amount for February 2014 to RM3,283.6 million and RM8,289.7 million, respectively. The financing started to show a constant trend for the remainder of the year. In addition, the highest difference between two financing years is for the month of January and the lowest is in the month of July. The amount is RM7,648.0 million and RM321.9 million, correspondingly.

Product Disclosure Sheet of Home Financing

Product Disclosure Sheet (PDS) of five commercial banks in Malaysia which provide Islamic financing facility to consumers were analysed using SPSS version 20. All types

of information in the PDS were gathered and compiled before it was analysed. By using Cross Tabulation Descriptive Analysis, the results as per table provided. There are 21 types of information provided by the banks in the PDS which not all banks can provide the same number of information for home financing product.

Table 3.2 is about the availability of PDS by each of the bank. It shows that four out of five banks provide the PDS, mainly the AmIslamic Bank Berhad (AmIslamic) which provides the highest number of PDS, since it offered four different types of Islamic home financing as compared to other banks. However, for CIMB Islamic Bank Berhad (CIMB Islamic), no PDS have been made available. Figure 3.2 illustrates by giving the percentage of the availability of PDS among five Islamic banks in Malaysia.

Table 3.2 Product Disclosure Sheet*Bank's Name Cross tabulation

Product Disclosure Sheet*Bank's Name Cross tabulation					
Product Disclosure Sheet	Bank's Name				
	AmIslamic Bank Berhad	BIMB	CIMB Islamic Bank Berhad	Maybank Islamic Berhad	Public Islamic Bank Berhad
YES	4	2	0	2	3
NO	0	0	4	0	0
Total	4	2	4	2	3

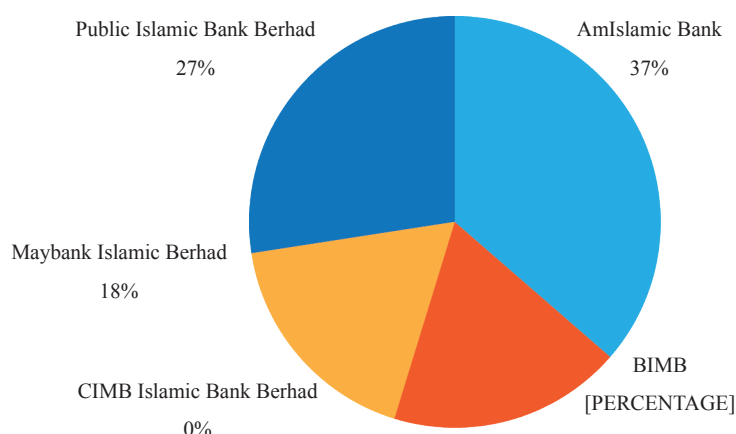


Figure 3.2 Percentage of Product Disclosure Sheet of Home Financing Published

Table 3.3 Name of Product*Bank Name Cross tabulation

Name of Product*Bank's Name Cross tabulation					
Name of Product	Bank's Name				
	AmIslamic Bank Berhad	BIMB	CIMB Islamic Bank Berhad	Maybank Islamic Berhad	Public Islamic Bank Berhad
ABBA Variable House Financing-i	0	0	0	0	1
Commodity Murabahah Home Financing-i	0	0	0	1	0
Fixed BBA Home Financing-i	1	0	0	0	0
Flexi BBA Home Financing-i	1	0	0	0	0
Flexi Home Financing-i / Business Premises Financing-i	0	0	1	0	0
Home Equity Financing-i	0	0	0	0	1
Home Equity Financing-i (Redraw)	0	0	0	0	1
Home Equity-i	0	0	0	1	0
Ijarah Property Financing-i	0	0	1	0	0
Musharakah Mutanaqisah Home Financing-i	1	0	0	0	0
My First Home Scheme-i	1	0	0	0	0
Property Financing-i (Tawarruq) - Baiti Home Financing Multi Tier	0	1	0	0	0
Property Financing-i (Tawarruq) - Baiti Home Financing Single Tier	0	1	0	0	0
Term Financing-i	0	0	1	0	0
Variable Home Financing-i / Business Premises Financing-i	0	0	1	0	0
Total	4	2	4	2	3

A variety of product's names have been used by the banks. As shown in Table 3.3 regarding the name of product, no bank has the similar name of their products with the other banks. It tends to indicate that each of the banks makes their product different from other competitors' product in terms of the name. Product differentiation has been practised by all five banks.

The overview of the product is all about what is examined. Out of five banks, only CIMB Islamic did not provide the explanation on its product because the bank did not provide the PDS to the public as per data gathered from the main website. The data is translated as presented in Table 3.4. In fact, this will deliver the negative output about PDS for the rest of the types of information in PDS for CIMB Islamic.

Table 3.4 Explanation on Product*
 Bank's Name Cross tabulation

Explanation on Product * Bank's Name Cross tabulation					
Explanation on Product	Bank's Name				
	AmIslamic Bank Berhad	BIMB	CIMB Islamic Bank Berhad	Maybank Islamic Berhad	Public Islamic Bank Berhad
PROVIDED	4	2	0	2	3
N/A	0	0	4	0	0
Total	4	2	4	2	3

Table 3.5 exhibits the *Shari'ah* contract applicable for each of the financing facilities. Two banks are using exactly similar contract which is *Musharakah Mutanaqisah*. Those banks are AmIslamic and Public Islamic Bank Berhad (Public Islamic). Although Maybank Islamic Berhad (Maybank Islamic) and Bank Islam Malaysia Berhad (BIMB) have different terms of contract used in their operation which are *Commodity Murabahah* and *Tawarruq*, respectively, but the *Shari'ah* contract is basically the same. The table also reveals that only one bank complies with the *Shari'ah* contract of *Bai Al-Inah* which is Public Islamic.

Table 3.5 Shari'ah Contract Applicable *
 Bank's Name Cross tabulation

Shari'ah Contract Applicable * Bank's Name Cross tabulation					
Shari'ah Contract Applicable	Bank's Name				
	AmIslamic Bank Berhad	BIMB	CIMB Islamic Bank Berhad	Maybank Islamic Berhad	Public Islamic Bank Berhad
Bai Al-Inah	0	0	0	0	1
Bai' Bithaman Ajil (BBA)	3	0	0	0	0
Commodity Murabahah	0	0	0	1	0
Musharakah Mutanaqisah	1	0	0	1	0
Musharakah Mutanaqisah, Ijarah, Ijarah Mawsufah fi al-Zimmah	0	0	0	0	2
N/A	0	0	4	0	0
Tawarruq	0	2	0	0	0
Total	4	2	4	2	3

In analysing the information on the definition of *Shari'ah* contract, all banks explain the meaning of *Shari'ah* contract used except for CIMB Islamic which is not applicable as mentioned in the earlier discussion. Meanwhile, one of the Public Islamic products did not provide in details by the bank about the Islamic contract that is applicable to that facility. Figure 3.3 explains about this type of information.

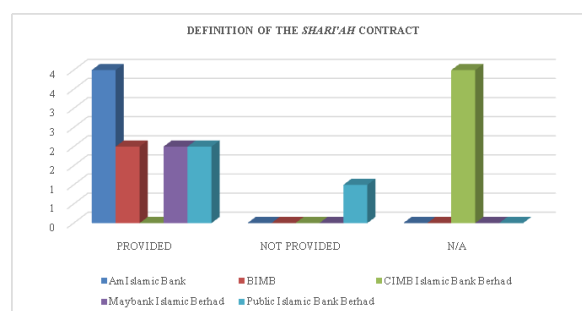


Figure 3.3 Definition of the Shari'ah Contract * Bank's Name

Table 3.6 Details on Financing Information *

Bank's Name Cross tabulation

Explanation on Product * Bank's Name Cross tabulation					
Information on Base Rate	Bank's Name				
	AmIslamic Bank Berhad	BIMB	CIMB Islamic Bank Berhad	Maybank Islamic Berhad	Public Islamic Bank Berhad
PROVIDED	3	0	0	0	0
NOT PROVIDED	1	2	0	2	3
N/A	0	0	4	0	0
Total	4	2	4	2	3

Base Rate (BR) has become a new reference rate for homeowners implemented by BNM to replace the existing Base Lending Rate (BLR) and Base Financing Rate (BFR) practised by banks in Malaysia which are conventional and Islamic bank, respectively. This new rate became effective on 2nd January 2015. Thus, information on the rate is recent and should be addressed to the customers in the process of purchasing a house. Table 3.6 shows the number of PDS which includes the information on Base Rate in the PDS by each bank. It provides an input that only AmIslamic Bank Berhad provides that information, although only three out of four of its home financing products cater for the said information. In contrast, the other banks did not make it available in terms of base rate's information in their PDS.

Table 3.7 Details on Financing Information *

Bank's Name Cross tabulation

Details on Financing Information	Bank's Name				
	AmIslamic Bank Berhad	BIMB	CIMB Islamic Bank Berhad	Maybank Islamic Berhad	Public Islamic Bank Berhad
PROVIDED	4	2	0	2	3
N/A	0	0	4	0	0
Total	4	2	4	2	3

Table 3.7 presents the details on financing information. It is all about the total amount of financing, margin, tenure, selling price, and profit rate to mention a few. As a result, all four Islamic banks publish the information in their PDS. The same goes to the information about the customer's obligation which is the monthly

commitment the customer is obliged to pay and up to the information on grace period. As presented in Table 3.8, all four banks deliver it to the customers in the PDS.

Table 3.8 Customer Obligation *

Bank's Name Cross Tabulation

Customer Obligation * Bank's Name Cross Tabulation					
Customer Obligation	Bank's Name				
	AmIslamic Bank Berhad	BIMB	CIMB Islamic Bank Berhad	Maybank Islamic Berhad	Public Islamic Bank Berhad
PROVIDED	4	2	0	2	3
N/A	0	0	4	0	0
Total	4	2	4	2	3

Business related to render services is not without fees and charger, commonly. This is similar to the banking services. As provided in Table 3.9, the total of four banks are supplying those information except for the CIMB Islamic because no PDSs are available, although it has the highest number of home financing facility as compared to BIMB, Maybank Islamic and Public Islamic. In summary, all 21 types of information disclosed in the Product Disclosure Sheet of 5 commercial Islamic banks have been illustrated in Table 3.10.

Table 3.9 Fees and Charges *

Bank's Name Cross tabulation

Fees and Charges * Bank's Name Cross Tabulation					
Fees and Charges	Bank's Name				
	AmIslamic Bank Berhad	BIMB	CIMB Islamic Bank Berhad	Maybank Islamic Berhad	Public Islamic Bank Berhad
PROVIDED	4	2	0	2	3
N/A	0	0	4	0	0
Total	4	2	4	2	3

Table 3.10 Evaluation of Information Disclosed in Product Disclosure Sheet

Types of Information in Product Disclosure Sheet	Bank's Name				
	AmIslamic Bank Berhad	BIMB	CIMB Islamic Bank Berhad	Maybank Islamic Berhad	Public Islamic Bank Berhad
Name of Product	/	/	N/A	/	/
Explanation on Product	/	/	N/A	/	/
Shari'ah Contract Applicable	/	/	N/A	/	/
Definition of the Shari'ah Contract	/	/	N/A	/	/*
Information on Base Rate	/**	×	N/A	×	×
Details on Financing Information	/	/	N/A	/	/
Customer Obligation	/	/	N/A	/	/
Fees and Charges	/	/	N/A	/	/
Banks' Right if Customer Fail to Fulfil Obligation	/	/	N/A	/	/
Rebate (<i>Ibra</i>)	/	×	N/A	×	×
Settlement Before Maturity	/	/	N/A	/	/
Takaful Coverage	/	/	N/A	/	/
Guarantor	/	×	N/A	/	/
Option to Choose other Lawyer	×	×	N/A	/	×
Confidentiality of Information to Third Party	×	×	N/A	/	×
Major Risk	/	/	N/A	/	/
Changes of Customer Contact	/	/	N/A	/	/
Assistance & Redress	/	/	N/A	/	/
Further Information	/	/	N/A	/	/
Information on Other Financial Package	/	/	N/A	/	/
Evaluation	Highly Disclosed	Least Disclosed	Not Disclosed at All / N/A	Fairly Disclosed	Disclosed

Legend: / = Provided; x = Not Provided; N/A = Not Applicable

* One out of three product of Public Islamic Bank Berhad did not disclose such information

**One out of four product of AmIslamic Bank Berhad did not disclose such information

According to Table 3.10 above, it seems to show that AmIslamic Bank Berhad highly discloses the information of Islamic home financing product as published in the Product Disclosure Sheet followed by Maybank Islamic Berhad, Public Islamic Bank Berhad, and Bank Islam Malaysia Berhad. CIMB Islamic Bank Berhad has been examined as not applicable since the bank did not publish or make it PDS available to the customers.

Conclusion

The financing taken by customers has shown the highest amount in terms of purpose which is for residential property (BNM Monthly Statistical Bulletin, 2015). However, the information delivered by the financial service providers to the customers in the Product Disclosure Sheet seems different, as shown in Table 3.10 based on five major commercial banks in Malaysia. The result reveals that each of the five banks tends to show lack of information disclosure even within the bank itself. As such, one out of four products of AmIslamic Bank Berhad did not provide the information on banks' Base Rate. Similarly, one of Public Islamic Bank's products has not published the definition of the Shari'ah contract applicable in its PDSs. In addition, the analysis provides that no data about the home financing products has been disclosed by CIMB Islamic Bank Berhad since the PDSs has not been published in the bank's website. Therefore, the PDSs of CIMB Islamic Bank Berhad could not be examined. Furthermore, although Maybank Islamic Berhad and CIMB Islamic Bank Berhad are in the top ranking of Islamic commercial banks in Malaysia and Asia, AmIslamic has shown the best practice in terms of providing information regarding home financing. Overall, the types of information disclosed in the PDSs of each bank vary with one another.

References

Abdul Hamid, F., Ismail, M., & Abdul Rahman, A. (2002). An Empirical Investigation of Corporate Social Disclosure by Banks and Finance Companies. Research Report. School of Accounting. Universiti Utara Malaysia.

Ahmed Haji, A., & Anum Mohd Ghazali, N. (2013). The quality and determinants of voluntary disclosures in annual reports of Shari'ah compliant companies in Malaysia. *Humanomics*, 29(1), 24-42. doi:10.1108/08288661311299303

Darmadi, S. (2013). Corporate Governance Disclosure in the Annual Report: An Exploratory Study on Indonesian Islamic Banks. *SSRN Journal*. doi:10.2139/ssrn.1956254

Dymott, E. (2010). The perils of confusing disclosure with transparency. *Professional Adviser*. Retrieved from <http://www.ifaonline.co.uk/professional-adviser>. Retrieved on 24th June 2015.

Gallery, G., Gallery, N., & Irving Sa, K. (2013). Use and Usefulness of PDSs in the financial planning context. *The Finsia Journal of Applied Finance*, (1).

Guidara, A., Khlif, H., & Jarboui, A. (2014). Voluntary and timely disclosure and the cost of debt: South African evidence. *Meditari Accountancy Research*, 22(2), 149-164. doi:10.1108/medar-09-2013-0042

Hassan, A., & Syafri Harahap, S. (2010). Exploring corporate social responsibility disclosure: the case of Islamic banks. *International Journal of Islamic and Middle Eastern Finance and Management*, 3(3), 203-227. doi:10.1108/17538391011072417

Hawani Wan Abd Rahman, N., Mohamed Zain, M., & Hanim Yaakop Yahaya Al-Haj, N. (2011). CSR disclosures and its determinants: evidence from Malaysian government link companies. *Social Responsibility Journal*, 7(2), 181-201. doi:10.1108/17471111111141486

Discover Islamic Banking.(2015) Retrieved from <http://www.islamicfinanceinfo.com.my>. Retrieved on 22nd June 2015.

Ismail, N., Tayib, M., & Adon, I. (1999). Financial Reporting Disclosure on the Internet by Malaysian Public Listed Companies. Research Report. School of Accounting. Universiti Utara Malaysia.

Ismail, R., & Abdul Rahman, R. (2013). Risk Management Disclosure in Malaysian Islamic Financial Institutions: Pre- and Post-Financial Crisis. *The Journal of Applied Business Research*, 29(2), 419-431.

Kim, J., & Varaiya, N. (2008). Insiders' timing ability and disclosure on corporate share buyback trading. *Review of Accounting And Finance*, 7(1), 69-82. doi:10.1108/14757700810853851

Monthly Statistical Bulletin. (2015). Retrieved from http://www.bnm.gov.my/files/publication/msb/2015/4/ebook_4.pdf. Retrieved on 24th June 2015.

Semenova, M. (2012). Market Discipline and Banking System Transparency: Do We Need More Information? *Journal of Banking Regulation*, 13(3), 241-248. doi:10.2139/ssrn.1545287