

02/12/2002

OCBC sees bright future for products

Jennifer Jacobs

ISLAMIC banking is gaining universal appeal as non-Muslims are attracted to the concept of profit-sharing as opposed to fixed interest rates.

OCBC Bank (Malaysia) Bhd, which has a predominantly non-Muslim customer base, introduced Islamic banking services in the middle of 1995, and as its senior executive vice-president and chief executive officer Datuk Albert Yeoh Beow Tit pointed out, the products have taken off quite well.

"Our customers are attracted to the value-for-money concept. Islamic banking depository and investment products are based on a profit-sharing concept where the customers are actually investors while the bank acts as an entrepreneur.

"The customers would then be able to share the profits arising from investment returns and businesses announced from Islamic banking business activities." This, he said, means variable dividends that will be announced from time to time, as opposed to fixed interest rates.

The Islamic financing products, he said, are based on a 'buy and sell' concept.

"The bank's sales price and the instalments are fixed throughout the financing tenure and not tied to the fluctuation of the base lending rate (BLR). This will assist customers in managing their annual expenses.

"Even though the sale price is fixed, customers stand to enjoy a rebate whenever they settle their outstanding amount earlier than the contract term," he added.

Yeoh said in contrast, for conventional depository products, the interest rate will be indicated to customers at the point of placement.

The interest rates quoted are basically tied to the movement of the BLR. "For example, for fixed deposits, the interest rates will be made known on the receipt at the time of placement.

"So, the bank will only pay the customer the contracted rate as printed on the receipt even though the bank managed to gain higher profits."

As for conventional loan products, Yeoh said they are closely tied to the movement of the BLR. Currently, the BLR rate is low.

"However, customers cannot avoid the risk of a higher BLR in the near future. This was the case in 1998 when lending rates shot up between 14 per cent and 15 per cent per annum. Due to the drastic increase in interest rates, customers only managed to service their interest rates while the principal amount remained unchanged," he said.

How has the popularity of such products grown in a predominantly Chinese bank?

"Basically, through the tireless efforts of the Islamic banking division in training the staff, especially the non-Muslims, to understand and market Islamic banking products to their customers," said Yeoh.

"Generally, the concept of profit-sharing offered in deposit and investment products and the concept of buying and selling at a fixed rate for the bank's financing products have attracted many non-Muslim customers to OCBC's Islamic banking products," he said.

To date, there are 14 products offered by OCBC that include deposits, investments and financing, which command some 32 per cent of the total Islamic banking products available in the local market.

Yeoh said he sees a bright future for these and similar products in years to come.

"Bank Negara Malaysia has provided all the necessary support and impetus

in relation to the framework on the Syariah Advisory Council, legal framework and infrastructure to facilitate the rapid growth of the Islamic banking sector as envisaged under the Financial Sector Masterplan 2001.

"To ensure the continuous expansion of the Islamic banking industry, Bank Negara has set a target for financial institution offering Islamic banking - that it should constitute 20 per cent of their respective portfolios by 2010," he said.

Yeoh said the rapid development of Islamic banking in Malaysia has made it a centre of learning and research for Islamic banking products and services.

"In addition, our local experts in the development of Islamic banking and takaful products have been invited to present papers at seminars held in several foreign countries."

This, he said, indicates that Malaysia has become an Islamic financial centre in the region.

He added that last month, Malaysia was picked to host the Secretariat for the Islamic Financial Services Board (IFSB), which represents another important milestone in Islamic financial cooperation.

"As mentioned by our Prime Minister (Datuk Seri Dr Mahathir Mohamad) in his keynote address, the establishment of the IFSB as the global standard-setting authority for Islamic financial services will serve to enhance the development of Islamic financial products for the benefit of the people," Yeoh said.

He added that the IFSB, which is represented by a council of governors of the central banks and monetary authorities of Bahrain, Indonesia, Iran, Kuwait, Nigeria, Pakistan, Qatar, Saudi Arabia and Malaysia, will become the pre-eminent global authority responsible for international Islamic financial services.