

Title	Newspaper	Day	Date
An Alternative to Fixed Deposits	The Edge	Wednesday	28 December 2016

An alternative to fixed deposits

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Investors who are looking for short-term shariah-compliant investments that give higher returns than fixed deposits should consider the Investment Account Platform (IAP), says IAP Integrated Sdn Bhd CEO Mohamed Izam Mohamed Yusof.

He says although it is considered a new asset class, it is a very viable option for investors as it is bank-backed and the ventures listed are rated by RAM Rating Services Bhd (RAM Ratings). "IAP is the only avenue in Malaysia today where local Islamic banks are sharing the relatively good returns from their financing of viable projects with investors via a shariah-compliant product called the Investment Account (IA).

"These investments start from as low as RM1,000. This is financial inclusion at its best, where such good returns can be enjoyed by almost anyone with excess cash and a certain risk appetite. It is no longer confined to select groups of people, such as the high-net-worth clients of banks or sophisticated investors."

IAP is an investing platform that allows retail, corporate and institutional investors to fund private or government-related ventures seeking financing to grow their business. It was developed by Raaed Holdings Sdn Bhd — a consortium of six Islamic banks comprising Affin Islamic, Bank Islam, Bank Muamalat, Maybank Islamic, Bank Rakyat and Bank Simpanan Nasional (BSN).

Under the IA, investors are able to choose the ventures they invest in and may be allowed to define the investment mandate and eligibility criteria for their financing. The fees that are applicable to investors depend on the

type of shariah contract — whether it is *wakalah* or *mudharabah* and *musarakah*.

Since investors are expected to invest in ventures that match their risk profile, RAM Ratings is responsible for providing an independent rating for each of the ventures or projects listed on IAP. The rating is uploaded on IAP as part of the information provided on listed ventures for potential investors.

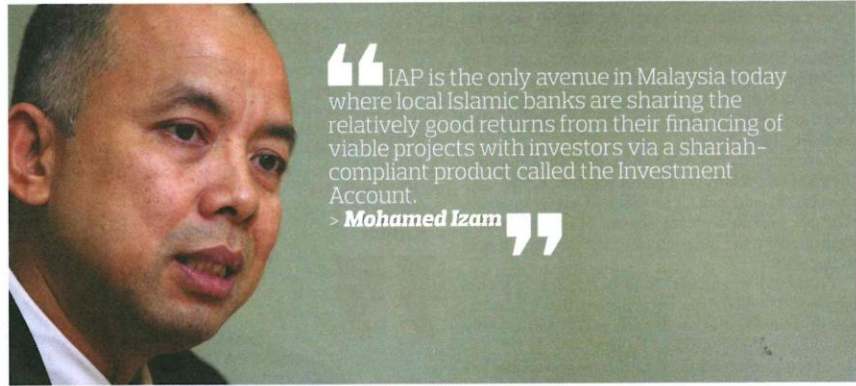
The first venture to be listed on the platform, Perak Transit Bhd, raised RM10 million for working capital via the platform in a two-week campaign. This has enabled the sponsoring bank, Bank Muamalat, to provide a financing facility for three years — effectively generating a return of 6.5% per annum for the investors. Perak Transit is listed on Bursa Malaysia's ACE Market.

Although IAP was launched in February, Mohamed Izam says it is still in its infancy and more needs to be done to educate the public on how it works. "Since its launch, we have been going around to educate the public on what IAP really is. This includes meeting potential investors, corporates and institutions. We have even reached out to a lot of small and medium enterprises (SMEs) to let them know there is an opportunity for them to raise funding through the platform."

He emphasises that IAP is not an equity crowdfunding (ECF) platform. Unlike ECF platforms, ventures seeking funding on IAP are required to have an established track record — similar to the banks' requirements when they review SMEs.

"A lot of time, when we explain to people what IAP is, they have the perception that we work like ECF platforms. The moment we start explaining that it is not for start-ups, the conversation becomes easier," he says.

"We are very clear about this be-



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cause we do not want to waste the start-ups' time. We do, however, advise them that once they have stabilised their business, they can come to us [to seek funding] to grow their business."

To ensure that the retail investors' risk appetite matches the investment risk of each venture, they will need to undertake a suitability assessment before making an investment. "This assessment is only for retail investors because we assume that corporate and institutional investors are already investment savvy. For retail investors, however, we need to make sure that [their intended investment] matches their risk profile," says Mohamed Izam.

"As a general guide, we look at three categories — their investment knowledge, investment appetite and financial capabilities. Once they have answered the questions, the platform determines what type of investors they are — capital protected, moderate or aggressive — and whether certain ventures are suitable for them."

If they decide to invest in a venture

that does not match their risk profile, they are required to get a consultation from one of the sponsoring banks and declare that they are fully aware of the risks involved.

Mohamed Izam says there are currently more retail investors than corporate and institutional investors on the platform. Unlike retail investors, who can register on the platform easily, corporate and institutional investors need to have a letter of support or acknowledgement from upper management to register on the platform. This can be time consuming, he points out.

"Since it is a new asset class, corporates do need to go through certain internal approvals before listing it as an investment. That is the reason there is less participation from corporate investors. However, we are actively trying to get more of them to join," he says.

The platform is open to both local and international investors, provided that they have an account with the sponsoring banks. Although the investments are currently only de-

nominated in the ringgit, Mohamed Izam says IAP is trying to get more international investors by enhancing the system with multiple currencies starting with the US dollar.

Moving forward, he would like to get more sponsoring banks and Islamic financial institutions on board so that the platform can be a "one-stop centre" for ventures, as well as a more attractive vehicle for investors. "Different banks have different strategies and they have their own risk appetite. Every bank has its favourite industry or area it wants to focus on. Instead of visiting each bank and guessing whether it is a match, the ventures can just come to our platform and let the banks choose," says Mohamed Izam.

"Currently, we only have four sponsoring banks. But over the years, we would like to have more so that the proposals submitted by the ventures will be picked up by many banks. This will be a lot easier for them than going to many banks to pitch their business."