

# ISLAMIC UNIT TRUST IN DEVELOPING COUNTRIES ECONOMY AND SOCIETY

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## Abstract

*Unit trust is an investment scheme that pools capital from investors on a smaller scale and collected until the formation of a large fund. Funds raised this large of a group of investors who will invest in a variety of investments in the sector identified investment will bring maximum profit. Accumulated fund will be managed by a joint management body appointed trustee in the course of this fund is to ensure a controlled and satisfactory. The investment risk is minimal as it is distributed in a variety of investments rather than investing only in one place. The scheme has its own contribution in helping the economy of local communities in increasing the pace of their economic life and thus helps the development of the national economy. Therefore, the Islamic Unit Trust was created to meet the needs of Muslims in Malaysia who want to invest. In this study, the researchers classified into three main points that should be emphasized in the study. The first study examined the extent to which the agent understands the concept of investing in Unit Trusts Islam. The second study examined the level of understanding of the Islamic Unit Trust and the third study examined the extent to which the contribution of Islamic Unit Trust investment agent in giving insight to potential investors. The design of this study is a questionnaire that will be given to respondents. Respondents in this research are divided into two groups, agents Islamic Unit Trust portfolio and also the surrounding community. The data were collected survey method in five States that chosen in this study, which is Kuala Lumpur, Perak, Kedah and Penang. The study shows that the agent are being well understood the Unit Trust concept that can help their customers in order to help them giving advice on the financial planning especially in Islamic unit Trust. Secondly, based on the study, the agent is well prepared about the differences between Islamic Unit Trust and Conventional Unit Trust. However the understanding from society are still weak and some of them don't have any idea about the Islam Unit Trust. The main limitation that found in this research are a small number of respondents and the coverage of the population. Future research should cover wider maybe the entire Malaysia both rural and urban areas in order to enlarge the scope of this study and to get more accurate result of the Islamic Unit Trust.*

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## **Introduction**

Unit Trust capital raising schemes on a small scale growth either from individuals, institutions or corporate bodies until the collection is formed as a large fund to be invested. To ensure the success of the investment process, a professional management team will be formed to manage the trust and investment. Money collected will be invested together in a portfolio of securities such as stocks, bonds and money market instruments or other securities authorized for achieving the objectives of the fund (Suruhanjaya Sekuriti, 2000). Unit Trust Industry in fact play an important role in mobilizing small savings to take place and actively competitive in the securities markets. The industry is built on the back of the three parties, investors, managers and trustees. The three parties are bound by the Trust Deed which is regulated by the Securities Commission (SC). Companies Unit Trust must go through various processes including registration at the early stage before the start of operation (Buku Rasmi Tahunan Malaysia, 1999). In Malaysia, this fund is fully regulated by various parties including the SC, the Registrar of Companies (ROC), Bank Negara Malaysia (BNM) and the Ministry of Domestic Trade and Consumer Affairs (MDTCA). Appointment of Members of the Board and others also refer and rely on the approval of MDTCA while BNM certificate (Amanah Saham Kedah, t.t). According to the Law Commission (Amendment) passed by the House of Commons on 20 April 2000 and the Senate on July 1, 2000, the approval and registration of the prospectus is to be the full responsibility of the SC, while the ROC under Section 86 of the Companies Act 1965 remains the body that responsible for the lodgments of the prospectus and approve the Trust deed drawn between the manager and the trustee appointed by the management (Wong Sau Ngan, 2000).

## **Problem Statement**

Society in general, especially the Muslim community in this country is still in obscurity on the market economy and the opportunities for participation in the sector. In order to address these issues and raise awareness, the government through financial institutions, state development corporations and the authorities has sought to remove people from the turmoil of this ambiguity thereby improving their economic and social status to an even greater extent. For this, various programs have been compiled and featured, among Unit Trust Funds scheme. This scheme is a golden opportunity for the local society, especially to take advantage of the economic sector. This scheme offers a great opportunity that also play in the investment world, even to those who have little capital or those with surplus cash but do not have full-time or not well-versed in the intricacies of the investment.

## **Objectives of the Study**

The general objective of the research is to study the implementation of Islamic Unit Trust in the country. While the specific objectives are to Assessing the level of understanding of the product agent Islamic Unit Trust, to study the contribution of investment portfolios agent Islamic Unit Trust in understanding the community and the level of public awareness of Islamic Unit Trust. This research will also provide exposure to the community thus increasing their knowledge about the advantages of Islamic Unit Trust on the economy and society in the country.

## **Development History Unit Trust Industry in Malaysia**

In Malaysia, the Unit Trust Industry was brought in around the end of 195- by a group of British investors who live in Singapore. On August 24, 1959, they appointed a firm of Cooper Brothers and Company as a secretary for the Trust Units first corporatized company called Malayan Unit Trust Limited. In November of the same year, they launched the first unit trust known as Malaya Trust Fund which is then followed by the Unit Trust of Malaya second and third and was followed by the launch of the Commodity Fund Sterling (Amanah Saham Kedah, Bulletin: Bodies Supervising Trust Fund). Development and responses to Unit Trust between the years of 1959 to 198- was seen as lackluster. This situation is likely driven by factors clouding the consciousness of society, particularly Citizen Unit Trust Industry and the economy as a whole (Endang Erwani Md. Dom, 1996). Market profile investors who entered at that time only from well-educated professionals only. Between 1959 and 1970, was recorded only three unit trust management companies reported operating actively, Malayan Unit Trust Limited, Asia Unit Trust and MARA Unit Trust. For the first two decades in the history of the unit trust industry in Malaysia involving growth relatively slow. Five organizational unit trust Management Company established in addition to 18 funds that were introduced during the period. Industry continues to grow over time until reaching 603 funds with 40 fund managers of unit trusts. Yet should be reviewed in the international arena, this concept actually has a long introduction. There is a theory which states the unit trust concept was introduced by the Dutch merchant Adrian Van Ketwick in 1774. On the other hand, there is also the theory that it was introduced by King William I of the Netherlands in 1822. However, the situation changes appeared after launching the Malaysian Government Malaysian Plan-3 in 1976 in which the objective is to alleviate poverty, thereby increasing socio-economic status of the *Citizen*. Establishment of *Bumiputera* Investment Foundation (YPB) on 14 April 1978, which was launched by the then Prime Minister, Dato Hussein Onn has been the driving factor for the economic development of the Citizen. YPB thus establish a subsidiary that later became known as Permodalan Nasional Berhad (PNB). PNB thus responsible for launching the Amanah Saham Nasional (ASN) on 2- April 1981.

## **Research Design**

The study involves a descriptive analysis. The aim is to see the number and percentage of respondents in answering the questions provided in the questionnaires distributed. Research questions focused on the respondents would have chosen. Respondents will be divided into two parts, the representative agent of Islamic unit trust and the community which is representative of the Islamic unit trusts agent. Sampling is a process of selecting a sufficient number of respondents from population studies to the understanding of the properties of the sample will enable researchers to make generalizations about the properties of the sample population (Sekaran, 2000). In this research, since the population is located in Malaysia, the researcher has chosen the five states will be turned into a study. Selected states in the implementation of this research are Kuala Lumpur, Selangor, Kedah and Penang.

## Result

In this study, two groups of respondents who answered the survey questions provided. The first group are the agents of the Islamic Unit Trust, while the second group is composed of people around and also customers to agents who responded to the survey questions. The study was conducted in four states in Kuala Lumpur, Perak, Kedah and Penang. A total of 52 agents who have completed the survey questions provided. While for 326 people who were involved in the questionnaires that have been provided. Understanding the agent of Islamic Unit Trust is very important and the most critical factor to the agent in delivering all information to potential customers. The findings of this study indicate that the agent understands the Islamic Unit Trust can assist in helping people plan their finances. Islamic Unit Trust is one of the financial program that is able to solve the financial problems in the long run. Planning should start early if you want to avoid financial problems in the future. In addition, the agent understands very well the difference that exists between the two systems of trust units on the market. This as a positive sign because it is very important to understand the concept of both unit trust as the agent will communicate information to the public and the public will certainly dispute the two types of unit trust that exists in the market. (Refer Appendix 1)

Understanding of the Islamic Unit Trust is very important to increase awareness and improve Islamic Unit Trust purchase by the public. According to a study conducted if seen from the fact that the first survey form stating that the Islamic Unit Trust could help people to solve their financial problems. More than half of those who disagree with this statement. They consider that unit trust burden to them because they need to spend some money on their savings and cannot afford to spend their money as soon as possible in case of emergency. However findings of fact stating Islamic Unit Trust is a profitable investment for more than half of the respondents agreed. Respondents agreed Islamic Unit Trust will benefit them but the number who took Islamic Unit Trust is still in a low level. This clearly shows that the public may not be able to buy unit trusts due to pressure from the rising cost of living as well as they are just a point where they realize Islamic Unit Trust products exist but awareness of the importance of the product is still at a low level and should be made aware of .kepentingannya. In general it can be concluded that the understanding of the people is still low and some immediate action should be taken to open the minds of people to express how important Islamic Unit Trust for those planning future free of financial problems. Many of the respondents were still confused even know the existence of which was first Islamic Unit Trust (Refer Appendix 2)

Through this research, the result also shows that understanding the agent is at a satisfactory level. In terms of understanding and also how the generation of profit through Islamic unit trusts still need to be improved. In addition, the agent also needs to increase the way they are in communication skills, particularly in the pattern of presentation of Islamic unit trust because people out there still lack an understanding of the concept of Islamic unit trust and they may assume that the Islamic unit trust is similar to a conventional unit trust. Agent is a representative of the company in reaching out to the community, therefore they must be prepared in terms of knowledge and deep understanding for the community and potential customers will ask you various questions related to the investment. Comprehension should not only about Islam but also unit trusts conventional brokers have to prove that there is a significant distinction between the two funds is that the community will have the full confidence and understanding. The studies also have implications to the community. There are respondents who have yet to learn directly about the Islamic unit trust. Through this study, they were informed that at least at the most basic level.

In addition, the researchers were able to understand a bit problems faced by the community in gaining an understanding of Islamic unit trust. The results showed that the level of understanding of the people still in the stage is low and immediate action must be taken to introduce Islamic unit trust them. Overall exposure should be given to the community so that they can understand the concept and will indirectly encourage them to have the best interests of the Islamic unit trust in their future.

## Conclusion

Unit trust scheme which is proving to be a scheme to further enhance community economic impact on the economy. In this regard, the efforts of the government in introducing the scheme had a very positive impact in the community's economic development efforts. Therefore, participation in the scheme is a positive step in working together to develop economic people and country. However, there are still some people who still have not really understood the scheme, then the responsibility of the operator's trust units and also through their agent to provide information useful to the community in helping to provide a better understanding of Unit Trust scheme especially Islamic Unit Trust.

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## Appendix 1

### Summary finding of Agents

No.	Question	Answers / Number of respondents				
		1	2	3	4	5
1	Islamic Unit Trust is a solution that can help people in financial planning	-	-	-	45	7
2	There is a huge difference in the conventional unit trust against Islamic unit trust	-	-	-	29	23
3	Before becoming an agent, a person must undergo prior training	-	-	-	-	52
4	Islamic Unit Trust is a collective investment scheme which is managed professionally by collecting money an individual and thousands of other investors	-	-	-	-	52
5	Islamic unit trust agent will invest the money on behalf of clients to achieve the targets set by the fund's investment objective	-	3	1	40	8
6	Professionally, Islamic unit trusts agent can be said of financial planning consultant in helping individuals plan their savings in the medium term (three years) and long term (over five years).	-	-	-	43	9
7	Each client has different goals. The role of Islamic unit trust agent is to provide a roadmap with appropriate savings of individuals.	9	-	-	43	-
8	Islamic unit trust agent just a guide. Options and safe form is still up to the customer to be	-	7	1	36	8
9	You are able to fully explain how the profits can be generated through the Islamic unit trust	-	-	-	27	25
1-	Agent determines the proceeds to be received by the customer	5	36	-	11	-
11	Agents should bear the loss if the funds invested do not provide a profit to the customers.	6	45	1	-	-
12	Non-Muslims can be an agent of Islamic unit trust	1	19	8	19	5

## Appendix 2

### Summary finding of community

No.	Question	Answers / Number of respondents				
		1	2	3	4	5
1	Islamic unit trust can help people solve their financial problems	5	202	82	35	2
2	Islamic unit trust is for the Muslim community only	-	156	78	92	-
3	Islamic unit trust is a profitable investment scheme	-	49	94	183	-
4	There are risks in Islamic unit trust	-	83	61	162	2
5	Investments in unit trusts are fluctuations in market prices, but the risk is low and the risk can be handled well	-	8	27	291	-
6	Islamic unit trust will give you a great advantage and benefit	-	13	41	272	-
7	Islamic Unit Trust is halal	-	-	9	317	-
8	You likely will lose out if investing in unit trusts Islam	5	148	82	72	19
9	You fully understand the concept brought by the Islamic unit trust funds and how profit can be generated by such units	3-	193	84	19	-
1-	Unit trusts Islam is an investment for the short term	56	209	52	9	-
11	Islamic unit trust investment is similar to the concept of Multi-Level Marketing (MLM)	65	176	77	8	-
12	The Securities Commission (SC) has established a Shariah Advisory Council (SACSC) to regulate Islamic funds in Malaysia	-	-	8	318	-
13	You can withdraw your investment money if you need money	-	42	128	154	2