Implementing gold investment for Malaysian Employees Provident Fund (EPF)

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Abstract

The Employees Provident Fund (EPF) was established under the Provident Fund Act 1991 (Act 452) which provides retirement benefits to its contributors under an efficient and trusted management appointed by the government. Both private and public sector employees are allowed to contribute; whereby EPF acts as a fund manager on behalf of the contributors and provides a guaranteed minimum dividend of 2.5 per cent per annum. Majority of EPF investments are of low risk financial instruments; and this is done as to ensure the contributors enjoy the minimum returns. As majority of EPF contributors are Muslims, two critical issues have risen, especially when EPF seems to be ignorant by not investing in *shariah* compliant instruments on top of its uncompetitive returns. As gold investment has so far shown to produce high long term investment return, we examined the suitability of introducing *shariah* compliant gold investment saving account as one of the EPF portfolio investment instruments. We suggested that EPF allocates around 15 per cent of its investment portfolio in *shariah* compliant gold account for the benefit of EPF contributors as to maintain their purchasing power after retirement. As gold hedges against inflation, investing in *shariah*–compliant gold investment account solves the dilemma of Muslim EPF contributors in non-permissible investment.

Keywords: Employees Provident Fund (EPF), gold account, gold investment, investment portfolio, Islamic instrument, *shariah* compliant

Introduction

In Malaysia, one of the social security institutions established under Malaysian law is the Employees Provident Fund (EPF). EPF was established under the Provident Fund Act 1991 (Act 452) which provides retirement benefits to its members; and this is done by managing their savings in an efficient and reliable manner by a body appointed by the government. In EPF pension schemes, both private and public sectors' employees are allowed to contribute; and the number of contributors was at 13.69 million as of December 2012. The contributions into individual accounts are based on their salary and employer contribution. The current contribution rate is based on the monthly wage of the employees. Those who receive monthly wage of RM5000 and below will have 11 percent employee contribution deducted from their monthly salary; meanwhile, the employer's contribution is at 13 percent. The workers earning less than RM5000 have a compulsory contribution of 11 percent with their employers contributing about 12 percent per month. This contribution rate of employers' share has been in effect since January 2012 for contributions of February 2012. The contribution rate for employee and employer are subjected to changes by the government. To facilitate the payment of contributions, the amount payable may be referred to in the Third Schedule of the EPF Act 1991. EPF ensures safe savings and contributors are to receive guaranteed dividends. To ensure the minimum return of 2.5 per cent per annum, EPF invests the fund in several financial instruments that can provide reasonable dividends to their contributors.

However, EPF has been involved in a number of investment instruments that are not *Shariah* compliant as determined by Malaysia Securities Commission (SC) guidelines. Our findings showed that EPF investments are mixed, comprising both non-*Shariah* and *Shariah* compliant investment instruments. In addition, EPF argues that in order to maintain the minimum rate of return to its contributors, it needs to invest in productive return financial tools such as properties and bond; which can provide more profit and stable income compared to Islamic capital market instruments (*sukuk*), which lack in supply and difficult to liquidate during emergencies.

Against this background, we investigated whether *shariah* compliant gold savings accounts can be one of the alternatives for a good return on investment platform for EPF. Currently, the demand for gold for investment purposes amounted to one fifth or about 20 per cent for five years from 2007 to 2011, with an increase by 35 per cent (World Gold Council, 2010). Gold for investment can be stored in physical form or in the form of gold savings account. Typically, gold is preferred for a long term investment because it is quite stable and its average price seems to have an increasing trend. Even if the price falls, the decline is only of a small amount and usually temporary.

Literature review

Past related researches on this issue can be categorized into three subsections, starting with overview of EPF investment, followed by the role of gold in financial system; and finally, the theory of gold as a hedging instrument against inflation.

EPF investment

Thillainathan (2003) found that EPF investment allocations are more towards short term rather than of making investments that guarantee profitable returns in the long run. He also showed that in formulating its investment portfolios, EPF tends to not care the interests of contributors. In ensuring contributors to gain benefits from their contributions, EPF implements investment strategy that considers all relevant elements in managing various risks arising from the ever-changing business environment. In addition, Magda Ismail (2011) highlighted that as it is difficult to ensure that EPF produces profitable investment outcomes, she proposed EPF to globalize its investment portfolio. It was also recommended that EPF to be more proactive in the planning of its investment portfolio in the context of strategic planning, market selection, liquidity level and operation. EPF needs to leverage on strong and integrated risk management culture in grabbing opportunities and dealing with threats that may lead to higher return of investments. In addition, Goldman Sachs (2011) suggested that the management of EPF to have an investment risk management framework to assist in the investments of the fund, besides ensuring good governance practice while making investment decisions. This framework should provide a comprehensive overview on the risk profile of the investment portfolio of the fund. It allows the organization to use the same approach to identify measure, monitor and manage portfolio risks. With EPF to ensure optimum return of investment, he proposed EPF to take into account the range of activities for the level of risk via portfolio diversification.

Gold and financial system

Yusni Anis Yusuf (2015) explained Malaysia has to come to be noted as a leader in Islamic finance such that its pioneering experiences in the various branches of Islamic Finance may provide valuable to others following or planning to follow in Malaysia's footstep. According to Mohd Yahya et al. (2014), the investment activities must be based on principles of *sharia* that have an impact on economic growth. For example, in the oil palm sector in Malaysia has adopted the concept of *Al - Hadharah* Boustead REIT, which uses the principle of *Al - Musharaka*, *Al -Wakalah*, *Al - Ujr* and *Musyra property* in its investment

activities. This article recommend by using the gold dinar for favorable returns in economic growth towards a more sustainable economic development especially in planning the asset managements for EPF.

The use of gold dinar as money ended in 1924 after the fall of the Ottoman Caliphate. The earliest study (after the fall of the Turkish government) on the use of physical gold dinar was carried out by al-Maqrizi (1957) during the era of the Mamluk. Study by Al-Maqrizi (1957) that relates to the elimination of inflation through restoration of dinar and dirham currency, is a study of value and of great importance at that time because that was the era of evolution and transition from a bimetallic system to a system of paper money. The situation was very different then compared to the present in terms of rapid economic development. However, there is no denying that the currency crisis and inflation that occurred in this era, especially the currency crisis in 1997, was identical to what was mentioned by al-Maqrizi. The currency crisis in 1997 saw the dumping of Asian currencies causing rapid currency devaluation. According to Mahathir (2000), the Asian currency crisis occurs due to the speculative attacks on currencies of the Asian countries through the activities of short selling by currency traders. Speculation attacks had depreciated the value of Malaysian ringgit, Thai baht and Indonesian rupiah. Therefore, the worst inflation phenomenon had occurred due to increase in inflation causing escalation of production cost; and inadvertently the fall in currency value (Jefferson, 1977; Harris, 1975).

Previous studies on gold dinar and financial system have been done by several researchers including Ahmad (2009), Dahinden (2008), Hussain and Abdul Rahman (2004) and Mydin Meera (2002). Ahmad (2009) suggested that the gold dinar should be a backup to the currency used nowadays or fiat money such as gold account. This method is more practical and formation of infrastructure is much easier to develop than physical gold dinar. Also, Ahmad (2009) highlighted on the theoretical Optimum Currency Area (OCA) as a theoretical basis needed to identify appropriate countries to adopt the gold dinar system. According to Dahinden (2008), from 2001 onwards there is a use of on-line gold dinar, known as e-dinar. E-dinar is an electronic payment system and exchange over the internet. Mydin Meera (2002) considered new innovations of gold dinar as to prevent gold holdings over the place; and thus convenience and safety to consumers. As of today, several models of the gold dinar as a currency had been raised by some researchers such as Hosein (2008), Hussain (2009), Mohd Dali, Abdul Hamid and al-Razi (2004), and Vadillo (2002). However, the use of the gold dinar as currency is yet to be officially implemented due to several constraints, especially in the context of legal environment, political readiness as well as the absence of a clear mechanism for gold dinar to replace currency.

Gold as a hedge against inflation

Apart from replacing fiat money by gold in the financial system, a few studies have investigated the role of gold as an investment tool that hedges against inflation. According to Boards and Hamzaid John Pence (2000), gold has long been used as currency, but now gold is in the limelight when the 1997 Asian currency crisis and the current global economic crisis become the yardstick in assessing current financial system that leads to currency instability and inflation. History has shown that gold-backed financial system has been in used for more than 1600 years, i.e. the pre-Islamic era until 1971. During this period, people have seen a few evolutions in the financial system, especially when the gold currency system seems to offer a lot of benefits. It begins with the time of the gold standard, the gold exchange system, and the Bretton Woods system. During this period, the world financial system was stable, especially in the gold standard period (1880-1914).

The study conducted by Salmy Edawati Yaacob et al. (2007) concluded that the world's currency is most stable in the golden era of gold-backed, which is either at the majesty of the gold standard (Corti & Holliday, 2010) or the golden era (Mohamad, 2009). This is because gold is able to stabilize prices and promote economic growth and development of world trade. At that time, the annual average inflation rate is of about three per cent in Australia and Finland, and less than two per cent in the Netherlands and the United States. Nevertheless, inflation instability occurred prior to 2000, and increased steadily after 2000 when gold was recognized as a commodity, traded freely in the market.

The price of gold is usually an indicator of global inflation. Accordingly, the World Gold Council (WGC) said in a report of their research findings indicated that the best way to see the effects of monetary policy on inflation is by looking at the price of gold. However, instead, the change in gold price acts as a key indicator to currency movement that reflects the true inflation rate.

Hedging is one of the major concepts of risk management mechanism. Without a good risk management, albeit the profits these institutions are making, they may still experience losses due to the risks of currency exchange or portfolio. The hedging mechanism is used to protect the Islamic financial institutions from losses due to various reasons such as the changes in exchange rates, changes in interest rates and so on (Marquard, 1994). The volatile nature of the market, particularly in the context of market interest rates and currency, requires hedging in the Islamic financial institutions (Abidin Hj Zainal, 2002). Thus, innovation in the Islamic hedging product structure needs to be diversified. There have been studies that focus on the application of gold as a hedging tool especially in the derivative market. Regarding to the Innocent Sitima and Ronney Ncwadi (2014) mentioned in South Africa, government intervention in the assets markets especially in enhancing availability credit condition to ensure high capital structures of private firms and household to ensure the inflation can solved.

Gold is a valuable metal that has intrinsic value and proven to be a reliable hedging tool. Following that, there have been previous studies geared towards the application of gold as an alternative hedging tool. Gold is a unique and special metal because of its amazing physical immunity, beauty as jewelry, unique function of electrical wiring, medicinal properties (Horrison, 2010; Corty et al., 2010) as well as an important instrument in the financial system. The world financial history has proven that gold is the best instrument to safeguard against inflation, as a currency value stabilizer, and the most remarkable tool to fulfill all functions and theory as an intermediary.

The privilege of Gold as a man's property was mentioned by Allah s.w.t. in the Qur'an; and Allah s.w.t. has also provided special laws for gold in His tenets, that mankind will always be protected from the nature of greed and to be more vigilant in taking advantage of the goodness of gold. Based on the concept of gold as a currency such as an intermediary, a store of value, a unit of account and a deferred payment, indicate that gold doubles as the best hedging tool compared to other metals. This is evidenced by the increase in the price of gold by 20 to 30 percent per annum (Kitco, 2012); and this has been the case since the disapplication of gold as a currency in the world monetary system in 1971. This is supported by the studies by Ahmed Kamel (2004) who analyzed the comparative effectiveness between the hedging instrument and gold futures contracts. The results of his research have shown that gold (the gold dinar) can protect against devaluation due to its stability, has intrinsic value, does not require the payment of margin, does not need for speculators to transfer risks and protects the value of currency.

Research methodology

This study is a case study research on EPF. The main issues are the mixed funds of *shariah* and non-*shariah* compliant investments, besides the low return of EPF investment portfolio. We adopted three methods of data analysis to come out with our findings and discussion. The three methods are the assessments of laws and maxims, textual analysis and theoretical assessment. For the first method, some legal maxims and resources were examined for solving the first issue that linked EPF mixed in terms of the allocation of *Shariah* and non-*Shariah* compliant investment instruments. The sources of Islamic law discussed are based on *al-Qiyas* (a deductive analogy in which the teachings of the Hadith are compared and contrasted with those of the Qur'an, in order to apply a known injunction (*nass*) to a new circumstance and create a new injunction), al-`Urf (the custom of a given society), *al-Masalih mursalah* (new laws should be implemented with a view to the general well-being of the people and with a view of safeguarding them from any potential harm), and *Sadd al-Dharaci* (blocking the means to evil). The maxims are gathered from Applications *Fiqh Muamalat* Islamic Financial System in 2011 and also through the website of Malaysian security commission. While the legal maxims approach was to assess

the *shariah* issue, the evaluation of text and monetary theory was done as to investigate the issue related to maximization of investment portfolio. Specifically, we examined the suitability of gold and gold savings accounts as investment instruments in the portfolio of EPF. In addition, how much EPF should invest in gold is derived from monetary theory analysis.[1] The gold instrument that we examined is Gold Savings Account at Kuwait Finance House (KFH).

Findings and discussion

Based on our textual analysis, we found that EPF ensures a minimum dividend of 2.5% per annum on top of a safe investment platform. In obtaining the minimum returns, EPF invests in financial instruments by the security commission such as investments of Malaysian Government Securities, Money Market Instruments, Bonds & Loans, and Equity and Properties. As seen from the percentage of shares invested by EPF in Table 1, most of the portfolio investments are of stocks from construction companies, housing and agriculture. Table 1 clearly shows that 69.87 % stake in Malaysia Building Society Bhd is owned by EPF.

Table 1. List of equity investments of the top 30 companies listed in bursa Malaysia by far quarter March 31, 2013

No	Shares	% shares
1	MALAYSIA BUILDING SOCIETY BHD	69.87%
2	MALAYSIAN RESOURCES CORP BHD	42.16%
3	RHB CAPITAL BHD	41.01%
4	MEDIA PRIMA BERHAD	18.55%
5	SHELL REFINING CO FOM BHD	16.88%
6	DIALOG GROUP BHD	15.96%
7	DIGI.COM.BHD	15.77%
8	*GENTING PLANTATIONS BERHAD	15.37%
9	KUALA LUMPUR KEPONG BHD	15.01%
10	IJM PLANTATIONS BHD	14.67%
11	HONG LEONG BANK BHD	13.84%
12	TELEKOM (M) BHD	13.82%
13	PETRONAS GAS BHD	13.55%
14	AXIS REIT MANAGERS BHD	13.5 %
15	KPJ HEALTHCARE BHD	13.21 %
16	*MALAYAN BANKING BHD	13.17%
17	SIME DARBY BHD	13.15%
18	PUBLIC BANK BHD	13.14%
19	ALLIANCE FINANCIAL GROUP BHD	13.09%
20	MBM RESOURCES BHD	12.71%
21	AMMB HOLDINGS BHD	12.71%
22	UMW HOLDINGS BHD	12.69%
23	TENAGA NASIONAL BHD	12.54%

[1] The monetary theory analysed are: (i) Theory of Currency (conceptual and functional currency); (ii) The theory of supply and demand (optimal supply of money/Optimum quantity of money); (iii) The theory of Gresham's Law "Bad Money Drives out Good Money"; and (iv)The Theory of Optimum Currency Area (OCA).

No	Shares	% shares
24	PETRONAS CHEMICALS GROUP BHD	12.49%
25	CIMB GROUP HOLDINGS BHD	12.47%
26	IJM CORPORATION BHD	12.33%
27	UNITED PLANTATIONS BHD	12.32%
28	SAPURA KENCANA PETROLEUM BHD	11.71%
29	AXIATA GROUP BHD	11.44%
30	WCT BHD	11.37%

* non-*shariah* compliant companies
Source: KWSP website (2013)

As seen in Table 1, EPF investments are of various *shariah* and non-*shariah* compliant shares based on the *shariah* compliant guidelines by Securities Commission Malaysia (SC) and *Shariah* Advisory Council (SAC). Both SC and SAC employ certain criteria, focusing on the activities of the companies listed on Bursa Malaysia. Therefore, subject to certain conditions, companies of activities that are consistent with *Shariah* principles are classified as *Shariah*-compliant companies. In contrast, a company can be classified as non-compliant if its core activities are not permissible as follows:

(a) Financial services based on riba (interest);
(b) Gambling and betting;
(c) Manufacture or sale of non-halal products or related products;
(d) Conventional insurance;
(e) Entertainment activities those are not permissible
(f) Manufacture or sale of tobacco-based products or related products;
(g) Stockbroking or share trading in *Shariah* non-compliant
(h) Other activities deemed non-permissible.

Besides, SAC does not only take into account the level of contribution of interest income derived by the company from conventional fixed deposits or other conventional financial instruments, but also dividends received from investments in non-compliant securities. For companies with mixed activities between activities that are compliant and non-compliant elements, the SAC considers two additional criteria as follows:

(a) The public perception of the image must be good
(b) The core activities of the company are important and providing *maslahah* (benefit) to the Muslim society. In addition, the non-*shariah* element must be very small, which only involves the "*umum balwa*" (common plight and difficult to avoid), *'uruf* (custom), and the rights of non-Muslim community which are accepted by Islam.

For the determination of mixed contributions from activities that are not permissible to be declared as profit before tax of a company, SAC has established several benchmarks based on *ijtihad* (the resolution derived from the source of consensus eligible *Shariah* scholars). If the contributions from non-permissible activities exceed the benchmark, the securities of the company will be classified as non-*shariah* compliant (SAC, November 2013). SAC adopts two-tier approach of quantitative screening methods; namely, business activity benchmarks and financial ratio benchmarks. The business activity benchmarks are as follows:

a) Five percent benchmark

This benchmark is used to assess the level of mixed contributions from the activities that are clearly prohibited (not permissible) as *riba* (interest-based companies like conventional banks), gambling, liquor and pork.

b) Twenty percent benchmark

This benchmark is used to assess the level of mixed contributions from activities that are generally permissible and *maslahah* to the public, but there are other elements that can affect the *Shariah* status of these activities. Among the activities of this benchmark are the operating activities of hotels and resorts, share trading, as these activities may involve other activities that are not permissible. Meanwhile, the threshold of financial ratio benchmark is 33% for two ratios; namely, cash over total asset and debt over total asset. Based on the guidelines of *Shariah* Screening process by Securities Commission, the total shareholding that is non *Shariah*-compliant must be less than 20 percent, although Table 1 shows that the summation of non-shariah compliant activities is 28.54% (Genting Plantations Berhad = 15:37% & Malayan Banking Berhad = 13.17%), indicating that EPF investment is not *Shariah* compliant. For the benefit of *maslahah* of Muslim EPF contributors, we urged SAC of SC to advise EPF to invest based on *Shariah* principles and to dispose the non-compliant securities within one month after knowing the non-compliant status of the securities as an effort to overcome the investment of mixed portfolio. Any gain in the form of capital gain or dividend received during or after the disposal of the securities is to be channeled to charity. EPF is only entitled to recover the cost of the original purchase.

Due to the mix of non-*shariah* compliant investment portfolio, there are a number of alternative Islamic investment instruments for EPF to consider such as *sukuk* (Islamic bonds), Islamic money market instruments, *Shariah* Equity, Islamic Real Estate unit trust, Islamic International Investment and Gold investment. Nevertheless, this study focuses on gold investment instruments as one of the proposals to the EPF as to provide high returns on behalf of the contributors and reduce the risk of non-compliant investments. In gold investment, it is divided into physical gold investment and gold savings account. The questions are: What is the appropriate form of gold investment suitable for EPF? Why choose gold as an alternative investment to the EPF? How much of the investment portfolio should EPF allocate for gold? The explanation in the following subsection helps to answer the aforementioned questions. (http://www.sc.com.my/wp-content/uploads/eng/html/icm/sas/sc_syariahcompliant_150529.pdf)

Advantages of gold

i) Gold is a real wealth

The history of the use of gold as money started as far as 6000 years ago. The Egyptians used gold bars which are stamped with name of the pharaoh Menes as a medium of exchange. At that time, anyone who owned gold was considered rich and powerful. Interestingly, if thousands of years ago those who owned a lot of gold were considered rich and powerful, even now if a man owns a lot of gold, he is still considered rich and powerful. Besides that, gold cannot be destroyed. It does not burn, rot, smell and rust. These characteristics allow gold to be a good store of value.

ii) Gold is valuable forever

Most objects have limited value to the time. However, gold has no time limit. Anyone who keeps wealth in the form of gold does not have to worry about the risk of losing wealth. Even gold dusts, they are still valuable. That is why gold is real wealth.

iii) Gold maintains purchasing power in the long run

Another benefit of gold is that it maintains the purchasing power in the long run. In other words, what can be bought by gold hundreds of years or even thousands of years ago can still be purchased with the gold, of more or less the same weight now. This is explained in the book "The Golden Constant – English and American Experience 1560-2007" (Mohamad, 2009).

iv) Gold is the ultimate asset

Gold is also our greatest asset, it is readily convertible to cash because gold is a very liquid asset. By owning gold, you can convert it into cash by utilizing the Islamic pawn broking (*Ar-Rahnu* – e.g. *Ar-Rahnu* Agrobank, *Ar-Rahnu* Bank Rakyat, *Ar-Rahnu* Yapeim and more). *Ar-Rahnu* institutions can provide loans ranging between 65% - 70% of the value of your gold. The value of these loans is calculated based on the current gold price. When gold prices rise, the amount of financing received will also increase.

v) The value of gold somehow remains during hyper inflation

Gold remains valuable despite the increase in inflation. Is this statement true? According to Mohd. Yusuf, Mohd. Dali and Mat Husin (2002), inflation is divided into three stages. Inflation is known to have a positive impact on economic growth at the beginning of inflation (Inflation creeping). At the beginning of inflation, the prices of goods and services will raise around 2 to 4 percent. Inflation can benefit the debtor (lower cost of financing due to high prices and low interest rate), but it slows down economic growth which will negatively impact the society (high unemployment rate, high crime rate due to financial distress and low purchasing power). In extreme scenario, hyperinflation can cause people to lose faith in money and trigger the barter system (exchange of goods). If there is a constant hyperinflation, foreign currency can take over the local currency, which had happened in Argentina that paralyzed the whole economy. Unexpected inflation can also affect investment decisions and result in decreased production of goods. Interestingly, history has shown that gold is stable in value despite economic crisis. Furthermore, gold is not only regarded as a symbol of national wealth, but also considered as one of the instruments that can, more or less, guarantee an individual investment in the future as it is accepted all over the world.

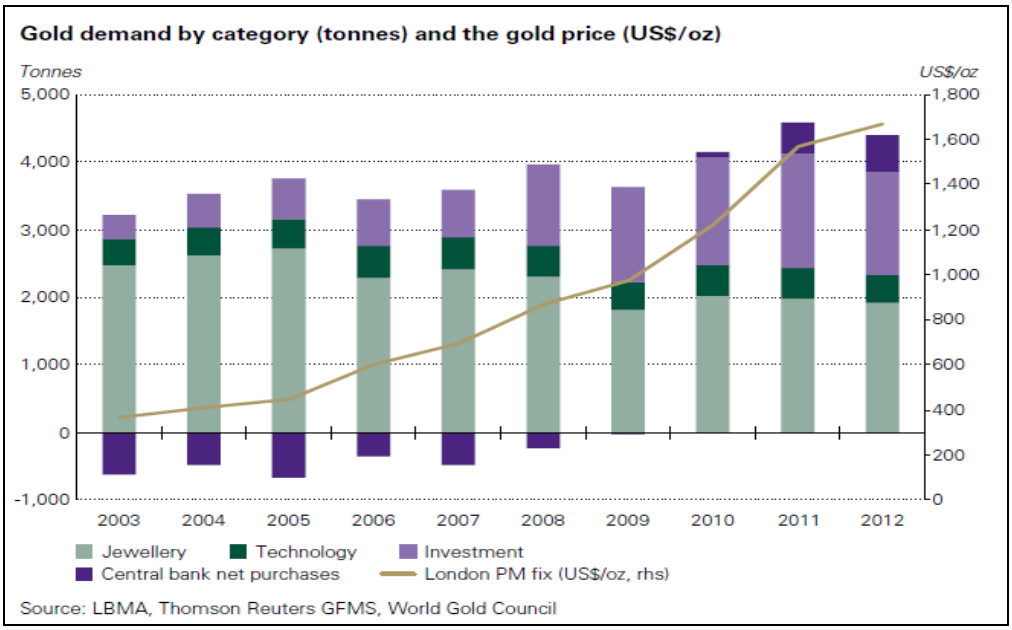

Figure 1. *Gold demand by category (tonnes) and the gold price (US$/OZ)*

It goes without saying on the advantage of gold investment. The next question is how much EPF should allocate its investment portfolio in gold. As EPF has a mission to at least provide a minimum annual return of 2.5 % to its contributors, we suggest the allocation percentage be based on the average amount of gold reserve held by the central banks of the developing countries. This is because the

percentage of gold reserve held by the central banks is always derived from the monetary theory of each country. Holding too much gold is not good for the expansion of a nation; also, it may freeze the economy. If everyone is keeping gold, then there is no liquidity in the market; and firms will have difficulty to expand as the supply of loanable fund is minimal.

Gold holdings in the International Monetary Fund (IMF)

The IMF normally maintains a national gold statistics as reported by various countries. These data are used to rank the world, and National Gold Council reports on gold holdings from time to time. Gold for each country listed in Table 2 are not necessarily kept outwardly in those countries, as central bank generally does not allow an independent audit of reserves.

Table 2. Percentage gold reserves in the world in 2013

	Tonnes	% of reserves**		Tonnes	% of reserves**
1 United States	8,133.5	71.7%	51 Malaysia	36.4	1.1%
2 Germany	3,387.1	68.7%	52 Peru	34.7	2.2%
3 IMF	2,814.0	[1)]	53 Slovakia	31.8	59.3%
4 Italy	2,451.8	67.2%	54 Nepal	30.1	22.0%
5 France	2,435.4	66.1%	55 Iraq	29.8	1.8%
6 China	1,054.1	1.2%	56 Ecuador	26.3	26.6%
7 Switzerland	1,040.1	8.3%	57 Syria	25.8	6.2%
8 Russia	1,015.1	8.3%	58 Morocco	22.0	5.2%
9 Japan	765.2	2.6%	59 Afghanistan	21.9	13.7%
10 Netherlands	612.5	54.0%	60 Nigeria	21.4	1.9%
11 India	557.7	8.4%	61 Sri Lanka	19.1	12.5%
12 Turkey[6)]	503.2	16.0%	62 Serbia	16.1	4.9%
13 ECB	502.1	27.8%	63 Azerbaijan	16.0	4.6%
14 Taiwan	423.6	4.3%	64 Jordan	14.6	4.9%
15 Portugal	382.5	85.2%	65 Cyprus	13.9	61.6%
16 Venezuela	367.6	69.8%	66 Bangladesh	13.5	3.3%
17 Saudi Arabia	322.9	1.9%	67 Cambodia	12.4	13.7%
18 United Kingdom	310.3	12.3%	68 Qatar	12.4	1.3%
19 Lebanon	286.8	24.7%	69 Czech Republic	10.8	1.0%
20 Spain	281.6	25.1%	70 Colombia	10.4	1.0%
21 Austria	280.0	48.6%	71 Laos	8.9	33.2%
22 Belgium	227.4	34.6%	72 Ghana	8.7	6.8%
23 Philippines	193.0	9.8%	73 Paraguay	8.2	6.0%
24 Algeria	173.6	3.7%	74 Latvia	7.7	4.1%
25 Thailand	152.4	3.8%	75 Myanmar	7.3	4.2%
26 Kazakhstan	139.5	25.1%	76 El Salvador	7.3	10.8%
27 Singapore	127.4	2.0%	77 Tajikistan	6.9	44.8%
28 Sweden	125.7	8.1%	78 Guatemala	6.9	4.4%

29	South Africa	125.1	10.6%	79	Macedonia	6.8	10.3%
30	Mexico	123.4	3.0%	80	Tunisia	6.7	3.8%
31	Libya	116.6	3.9%	81	Ireland	6.0	15.4%
32	BIS[2)]	115.0	[1)]	82	Lithuania	5.8	3.0%
33	Greece	112.1	77.5%	83	Bahrain	4.7	3.6%
34	Korea	104.4	1.3%	84	Brunei Darussalam	4.0	4.6%
35	Romania	103.7	8.6%	85	Mauritius	3.9	4.9%
36	Poland	102.9	4.1%	86	Kyrgyz Republic	3.5	7.0%
37	Australia	79.8	6.3%	87	Slovenia	3.2	13.9%
38	Kuwait	79.0	9.6%	88	Aruba	3.1	17.6%
39	Indonesia	78.1	3.5%	89	Hungary	3.1	0.3%
40	Egypt	75.6	17.1%	90	Canada	3.0	0.2%
41	Brazil	67.2	0.8%	91	Bosnia and Herzegovina	3.0	2.7%
42	Denmark	66.5	3.2%	92	Mozambique	2.8	3.7%
43	Pakistan	64.4	32.8%	93	Mongolia	2.7	4.3%
44	Argentina	61.7	7.6%	94	Luxembourg	2.3	10.2%
45	Belarus[4)]	49.5	28.1%	95	Hong Kong	2.1	0.0%
46	Finland	49.1	19.5%	96	Iceland	2.0	2.1%
47	Bolivia	42.3	12.4%	97	Papua New Guinea	2.0	2.7%
48	Ukraine	41.7	8.6%	98	Trinidad and Tobago	1.9	0.8%
49	Bulgaria	40.0	8.6%	99	Albania	1.6	2.4%
50	WAEMU[3)]	36.5	11.5%	100	Yemen	1.6	1.2%

Source: World Gold Council, 2013

Table 3. Top 10 developing countries of Gold Reserve Holdings in 2013

position in the world	Country	Gold (ton)	Gold Reverse (%)
11	India	557.7	8.4
16	Venezuela	367.6	69.8
19	Lebanon	286.8	24.7
23	Filipina	193.0	9.8
24	Algeria	173.6	3.7
25	Thailand	152.4	3.8
26	Kazakhstan	139.5	25.1
29	South Africa	125.1	10.6
34	Korea	104.4	1.3
51	Malaysia	36.4	1.1
Average			15.83%

Source: World Gold Council, 2013

In 2013, the World Gold Council showed the amount of gold held by a number of developing countries. There are a total of 145 countries categorized as a developing country. India recorded the highest total amount of gold holdings at 557.7 ton with 8.4% of gold reserve. Table 3 above is based on the amount of gold reserves in ton supreme. Malaysia was also ranked among the top 10 developing countries that owned a total of 36.4 tons of gold in which the holding percentage was 1.1 per cent. The average percentage for the top 10 developing countries was 15.83% per cent; hence, based on the monetary theory, we suggest EPF to allocate around 15% of its total portfolio investment in gold.

Gold investment account

As physical gold incurs storage and security fee, we suggest EPF to invest in gold investment account. In Malaysia, so far, there are 7 saving accounts offered by the commercial banks, namely; Public Bank Gold Investment Account, Maybank Gold Savings Passbook Account, UOB Gold Saving Account, CIMB Gold

Deposit Account, KFH Gold Account-i and Al-Rajhi Gold account. Public Bank Gold Investment Account, UOB Gold Saving Account and CIMB Gold Deposit Account are clearly not *shariah*-compliant because the withdrawal of physical gold is not allowed. Similarly, Maybank Gold Savings Passbook Account is also considered as non-*shariah*-compliant although gold account can be opened at any Maybank branch, physical gold transaction can only be made at certain branches. This is contrary to the principle of buying and selling gold mentioned in the hadith of the Messenger. In Islam, the sale and purchase of gold must be made in cash (spot) and not on credit/debt/overdue.

On the other hand, KFH Gold Account-i and Al -Rajhi gold account are recognized as *Shariah* compliant since they allow physical gold investment and the gold can immediately be removed after opening of an account. Although all branches of KFH offer this account, investors can only buy and sell gold of his or her accounts as to ensure the exact amount of gold really exist and adequate in that particular branch, which is in accordance with the principles of Islam in gold trading; and a serial number is put on the gold and the serial number must be disclosed in the investor's investment.

As KFH gold account was established earlier than Al-Rajhi gold account, we will discuss on the advantages and disadvantages of KFH gold account as follows:

Advantages KFH gold account-i

1. It is a *shariah*-compliant product as it allows the customers to have and see the physical gold.
2. It offers a competitive price (using gold 99.95).
3. The process of opening the gold account is simple and fast.

Disadvantages of KFH gold account-i

1. A slightly lower qualities in terms of purity. KFH has a purity of 995.0 gold bullion compared to other Malaysian gold bar, which usually has 999.9 purity.
2. The spread is relatively high compared to other non-*shariah* compliant gold accounts in Malaysia.
3. Gold can be bought and sold during working hours only KFH (9.30 am - 4.30 pm)
4. The plastic casing of the gold cannot be opened because the gold cannot be scratched and bent.

Conclusion

Having discussed the advantages of gold investment account that is *shariah*–compliant, we suggest EPF to consider revising its investment portfolio to a higher return investment. It should be noted that the cost of living in the future will be much higher than the present. If the 2.5% to 5% return provided by EPF appears to continue, we are worried that the contributors will be "poor before pension", especially now that the Ringgit Malaysia is plummeting dramatically as well as inflation is increasing rapidly as a result of cost-push factor from imported goods. Hence, we hope our findings and the recommendation for EPF to consider investing around 15% allocation of its portfolio in *shariah*-compliant gold investment account will shed some light to the policy makers in developing their strategic investment plans for EPF. In addition, now is a suitable time to invest in gold as its price is considered at a low level compared to previous recent years.

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