

DEPOSITS MOBILIZATION, FUNDS UTILIZATION AND OPERATING PERFORMANCE: THE CASE OF THE TABUNG HAJI MALAYSIA*

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ABSTRACT

In this paper we examine and evaluate the deposits mobilization, funds utilization and operating performance of the Tabung Haji Malaysia. The deposits mobilization measures the sources of saving scheme offered while the funds utilization measures the use of mobilize fund of the Tabung Haji. The study also investigates the operating performance of the Tabung Haji measured by Return on Asset (ROA), Return on Equity (ROE), Current Ratio (CR) and Current Assets Ratio (CAR). The study finds that the Tabung Haji has absorbed most of the deposits available to profitability investment and financing strategy between 1990 through 2000. However, after the year 2000, the institutional has not been fully utilizing the available fund. With regards to its operating performance, we observe that the Tabung Haji as an institution which provides services such as pilgrimage, finance and investment to its depositor is operationally and financially sound, and credible.

JEL classification: N25

Keywords: Tabung Haji Malaysia; funds utilization; deposits mobilization; operating performance.

* Tabung Haji (Pilgrim Fund Board of Malaysia) is an Islamic non-banking institution which helps Malaysian Muslim to save gradually for pilgrimage and at the same time enables them to have effective participations in investment activities permissible in Islam through savings.

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INTRODUCTION

The Pilgrims Management and Fund Board, locally known as *Lembaga Urusan dan Tabung Haji (LUTH)* and then *Tabung Haji (TH)*, which was launched 32 years ago is another Malaysian government economic scheme in the context of national development. Its main purpose is to aid the Malaysian rural economy by providing saving services that are according to the Islamic principles and using strategy of exploiting the financial resources of Muslims for the benefit of the *ummah*. Its basic principles, structured by Royal Professor Ungku Aziz who was then an economics lecturer and who later became the Vice Chancellor of the University Malaya, remain unchanged, but the institution has developed significantly and beyond imagination. Today, the *Tabung Haji* actively invests and effectively participates in nation's economic activities. The *Tabung Haji* is also recognised as one of the high performance Government Link Company (GLC), especially from its subsidiaries, the *Tabung Haji* Plantation which is listed in the Main Board of Bursa Malaysia in 2006.

The institution has successfully expanded its investment activities through its subsidiaries in various economic sectors such as real estate, construction, plantation and services. These active and profitable investment activities are consistent with the objectives of the New Economic Policy (NEP) of the country. The financial functions of the *Tabung Haji* can be divided into two major categories. The first concerns financial management including savings and the withdrawal of funds by depositors, and the second concerns the investment carried out with these savings.

The *Tabung Haji* as an Islamic non-banking financial institution has a unique feature in serving a different purpose in the economy. In this study, the researcher considers the *Tabung Haji* as an Islamic financial institution which has mobilized saving of individuals and successfully operated an investment fund according to the *Syariah* (an Islamic law). The investment offered is in line with *Syariah* concept and consolidating aiming at a greater Islamic investment market share. In term of marketing, *Tabung Haji* has come up with a product that satisfies two fundamental human needs: religious as well as financial need.

Therefore, the importance of this study is not only to the institution in gauging their performance but also to the depositor and investor alike in understanding how the *Tabung Haji* financial management operates. Thus, the objectives of

the present study are twofold. Firstly, it investigates the relationship between deposits mobilization and funds utilization activities of the *Tabung Haji* focusing on how effective the deposit is being utilized for the benefit of the both depositors and investors. The results of the study will highlight on the performance of Islamic non-banking institution own by government such as the *Tabung Haji* in carrying business for the benefit of the depositors. Khan and Iqbal, 2004 have shown that the Islamic financial system lacks a comprehensive set of operational institutions and instrument compared to their conventional counterparts. Indeed, at present the Islamic financial sector has been dominated by banks. While banks have play an important role by providing liquidity and access to a safe and efficient payment system to depositors, there is a need to expand the type of institutions offering a wide menu of products that serve the various needs of the society. Secondly, the study will examine the *Tabung Haji* overall operating performance during the period of the study, that is, from 1989 to 2004. This will shed some light on the impact of the regional financial crisis, which hit the country in 1997, on the institution. Indeed, the *Tabung Haji*, as an investment institution is also affected during the crisis.

The rest of the study is presented as follows. The data and model are discussed in Section 2. Section 3 provides empirical result. Finally, Section 4 gives the summary and conclusion of the study.

LITERATURE REVIEW

Samad and Hassan (1998) evaluate intertemporal and interbank performance of BIMB in profitability, liquidity, risk and solvency and community involvement for the period 1984-1997. Financial ratios are applied in measuring these performance and T-test as well as F-test are used in determining their significance. The study finds that BIMB is more liquid and less risky.

Metwally (1997) applies logic, probity and discriminate analysis to test for structural differences between the financial characteristics of interest-free banks and conventional banks. The analysis extends to various financial dimensions which evaluate performance, namely: liquidity, leverage, credit risk, profitability and efficiency. It covers 15 interest-free banks and 15 conventional banks. The statistical evidence suggest that two group of the banks may be differentiated in terms of liquidity, leverage and credit risk, but not in terms of profitability and efficiency.

Iqba and Molyneuxl (2005) mention that financial institutions provide services rather than readily identifiable physical product. Therefore, there is no consensus as to precise definition on how and what output can be measures. In addition, some researchers choose to measure output in term of assets and liabilities by focusing either on one side of the balance sheet or on both sides at the same time. Others have even used bank revenues to measure bank output. Output can be defined as various types of assets while inputs include deposits and liability.

Khan and Iqbal (2004) show that the Islamic financial system lacks a comprehensive set of operational institutions and instruments compared to their conventional counterparts. Nowadays, the Islamic financial sector has been dominated by banks. While banks play an important role by providing liquidity and access to a safe and efficient payment system to depositors, there is a need to expand the type of institutions offering a wide menu of products that serve the various needs of the society.

DATA AND RESEARCH METHODOLOGY

Data sources

The sample consists of deposit mobilization and fund utilization of the *Tabung Haji* obtained from the yearly financial report of the institution for the period from 1989 till 2004. The area of focus is the annually financial report of the *Tabung Haji* which covers the financial statement, namely balance sheet, income statement and cash flow.

Methodology

The deposits mobilization of the *Tabung Haji* consists of fund collected from depositor while the funds utilization are funds that are available for investment and financing. The fund utilization ratio is derived by dividing the total amount of investment as well as financings by the total amount of funds available which includes depositors saving fund and reserves. The formula is as follows:

$$\text{Utilization Ratio} = \text{Total Investment and Financings} / \text{Total Fund Available}$$

Accrual Performance Measures

Financial management theories provide various indexes for measuring financial institution performance. One of them is accounting ratios or financial ratios which is common in the literature. This study uses four (4) ratios to measure for the *Tabung Haji* financial performance. These ratios are grouped under two (2) broad categories and concentrates on the performance of the following ratios.

Profitability Ratios

ROA and ROE are the indicators of measuring efficiency. ROA is net earning per unit of a given asset. It shows how an institution can convert its asset into net earnings. The higher ratio indicates higher ability and therefore is an indicator of better performance. On the other hand, ROE measures net earnings per dollar equity capital. Higher ratio indicates higher managerial performance. However, profitability is only part of the institution performance. The formulas are as follows:

- a. ***Return on Asset (ROA) = Profit After Tax and Zakat / Total Asset***
- b. ***Return on Equity (ROE) = Profit After Tax and Zakat / Equity Capital***

Liquidity Ratios

Bank and other depository institutions share liquidity risk because transaction deposits and savings account can be withdrawn at any time. Similarly, the *Tabung Haji* as an Islamic non-banking institution also allowed depositors to withdraw their savings at any time as needed. There are several measures for liquidity, but in this study, the researcher is only taking CR and CAR into considerations. The formulas are as follows:

- a. ***Current Ratio (CR) = Current Asset / Current Liability***
- b. ***Current Asset Ratio (CAR) = Current Asset / Total Asset***

Summary Statistics

Table 1 below shows summary statistics of the *Tabung Haji* total numbers of depositors, yearly savings, withdrawals, profit, investment, deposits saving fund, profit after *zakat* (tithe) and taxes for over sixteen (16) years from 1989 through 2004.

Table 1: Summary Statistics for 1989 -2004

	No.of Depositors (people in million)	Saving (RM million)	Withdrawals (RM million)	Total Assets (RM million)	Profit (RM million)	Investment (RM million)	Deposits Saving Fund (RM million)	Profit after Zakat and Taxes (RM million)
2004	4906	4871	4554	12440	837	12193	12085	500
2003	4718	4787	4183	11635	687	11423	11286	414
2002	4534	4108	4749	10619	635	10283	10270	368
2001	4328	5432	4722	10829	692	11004	10565	336
2000	4023	4594	3504	9846	536	4331	9534	338
1999	4015	3439	2749	8602	649	3864	7986	458
1998	3461	2954	2361	7306	749	3478	6753	561
1997	3189	2147	1159	6144	662	2979	5700	569
1996	2977	1763	933	4699	457	1933	4272	363
1995	2737	1278	669	3425	339	1514	3113	251
1994	2536	956	752	2608	296	1147	2268	214
1993	2347	811	570	2084	282	885	1885	170
1992	2200	752	516	1662	163	167	1466	102
1991	2052	687	679	1317	136	149	1146	84
1990	1773	557	522	1224	0	198	1074	54
1989	1521	556	387	1137	114	73	1014	70

Table 1 presents the total number of depositors over the sample years and it shows an increasing trend. This is the result of trust and confident of depositors on the *Tabung Haji* services which are based on Islamic principles of no *riba*' (interest).

In general, the performance for savings is encouraging especially in 2001. The achievement is due to customer oriented approaches implemented by the *Tabung Haji*. The friendly and open concept of counter management has attracted depositors to continued saving in the *Tabung Haji*. Moreover, the improvement of facilities and comfort for customers at the counters, combined with a well-planned marketing strategy has increased the saving performance. The opening of new branches national wide also contributes to the increasing in saving.

The total withdrawals have increased year by year due to the change in the policies of the *Tabung Haji* where depositors can withdraw their money at any time as needed. The portion of the withdrawals comes from normal withdrawal, Hajj withdrawal and inheritance withdrawal. The *Tabung Haji* has also accumulated an asset totaling RM1, 137million in 1989 to RM12,440 million in 2004. The increase in total assets is in line with depositors saving where a sizeable portion of the increased in the asset value come from the money received from depositor's savings fund. The profit of the *Tabung Haji* for the last ten years does not show any significant increase or decrease except for the 2004 where the profit has increased by about 20% from 2003. The biggest portion of profit comes from investment in the stock and financial markets where during this time the performance of Bursa Malaysia index has increased to 900 point in 2004. This help the *Tabung Haji* make a handsome return in selling and buying of shares.

The total investment has increased constantly throughout the sample year except for 2002 where the amount drops a little bit from 2001. This is due to the attacked of World Trade Centers (WTC) which affects the world economy. The *Tabung Haji* has made a meticulous study of each investment offered taking into considerations factors such as: businesses that are 'halal', have potential growth, reasonable process, partners that are strong and an experience and efficient management team.

The total deposit has also increased year by year due to the constant publicity and promotion activities by the institution. As an effort to increase total investment and service quality, the *Tabung Haji* has also implemented saving of deposits facility through internet banking in 2003.

As an Islamic institution, the *Tabung Haji* has continued to pay for the *zakat* every year from the realized profit. The operation profit after the *zakat* and before depositor's bonus has increased to RM500m in 2004 compared with RM414m in 2003. This increment is about 20% from the previous year and the source of income mostly comes from dividend on its long-term investment and the operation expenses control.

RESULTS

Deposits Mobilization

The study examines the deposits mobilization by looking at the sources of saving of the *Tabung Haji* from the year 1989 until 1998. Generally, *Tabung Haji* accepts deposits from customers who are intended to perform *Haji* rituals. The *Tabung Haji* in collecting saving fund from the depositors has appointed nine (9) banks, namely Public Bank, AmBank, EON Bank, Bank Simpanan Nasional (BSN), Bank Islam (BIMB), Maybank Bhd (MBB), Bumiputra Commerce Bank (BCB) and RHB Bank Bhd. besides Post Office, the only non bank collecting agent. There are altogether four (4) sources of savings, namely salary cut, counter and campaign scheme, post office collection and student and children fund scheme. However, in 1997, there is an additional saving collection method through the Employee Provident Funds (EPF). This investment scheme attracts more depositors and is convenient to all customers especially the retirees.

Table 2: Sources of Saving (RM million)

Types of Savings / Year	'98	'97	'96	'95	'94	'93	'92	'91	'90	'89
Salary Cut	594.6	533.6	468.5	397.4	352.5	334.6	316	271.1	221.8	181.2
Counter and Campaign	2,216	1,534	1,236	826.8	559.9	439.4	401	393.1	310.2	347.1
Post Office	84.03	53.8	48.4	31.5	26.0	23.4	26.30	20.5	21.7	25.9
Student and Children Fund	14.54	9.4	10.9	22.5	18.5	14.5	8.50	2.9	3.6	2.7
EPF	20.97	11.0	-	-	-	-	-	-	-	-
Total	2,930	2,142	1,764	1278	956.9	811.9	753	687.6	557.3	556.9

Table 2 shows the sources of savings collection of the *Tabung Haji*. The increased in total savings was obvious in all schemes introduced by the *Tabung Haji* and also the new saving options through EPF Member Investment Scheme, which was introduced in early 1997.

Utilization of Funds

Investment and employment of funds are extremely important and the cornerstone of any financial institution activities. The *Tabung Haji* is employing the available

funds with the most efficient way and utilizing them for the purpose of achieving its goals. At the same time, it provides facilities and services to Muslim society at large, and also to attain viability and sufficient level of profitability growth.

Higher utilization ratios indicate that complete or near complete employment of funds generated from deposits and capital in investment activities. In fact this ratio will determine how funds are been utilized particularly in the area of investing and financing development project, which is also one aspect of the *Tabung Haji's* role in developing the economic and social of a country. This ratio could also reflect the institutional aggressiveness in turning their available funds into earning assets. As mentioned by Josep and Sinkey (1997), that it is widely known and taken as standards that the utilization ratio of 75% and above is considered a good indicator of utilization efficiency.

Table 3 shows the percentage of total deposits saving fund to the total investment (fund utilization ratios) for the sample period. It can be seen that more than 70% of the total funds available had been mobilized from 1990 until 2002. However, the ratios have decreased below 70% from the year 2001 and onward. What it means is that during this period the *Tabung Haji* is not fully utilizing the available fund. Thus, it is suggested that the institution has not been successfully running the funds with obvious efficiency to the economic development and well being of the Muslim society.

The major portion of the fund utilizations are for investment in selected industry which include property, and plantation. Most of the *Tabung Haji* investments are in long term period and are managed under the principles of *Al-Musyarakah*, *Bai Bithaman Ajil (BBA)*, *Mudharabah*, *Qardhul Hasan* and *Al-Ijarah*. The investment instrument are Bonds, Corporate Notes (*Musyarakah*), Government Investment Certificated (*Qardhul Hasan*), *Mudharabah* Bank Account and Bill of Acceptance.

Table 3: Fund Available and Utilization Ratio (RM million)

Statement/ Year	'04	'03	'02	'01	'00	'99	'98	'97	'96	'95	'94	'93	'92	'91	'90	'89
Total Deposits	12,085	11,286	10,270	10,565	9,534	7,985	6,753	5,700	4,272	3,113	2,268	1,885	1,466	1,146	1,074	1,014
Capital and Reserves	340	335	333	311	296	374	458	357	228	194	178	143	151	132	135	108
Total Fund Available	12,426	11,621	10,603	10,876	9,830	8,359	7,211	6,057	4,500	3,307	2,446	2,028	1,617	1,278	1,209	1,122
Total Investment	12,193	11,423	10,283	11,004	4,331	3,864	3,478	2,979	1,933	1,514	1,147	885	167	149	198	79
Utilization Ratio %	98%	98%	97%	101%	44%	46%	48%	49%	43%	46%	47%	44%	10%	12%	16%	7%

Operating Performance

Profitability (ROA and ROE)

In evaluating the *Tabung Haji* operating performance, the study looks at the operation ratios of Return on Asset (ROA), Return on Equity (ROE), Current Ratio (CR) and Current Asset Ratio (CAR).

The performance of the *Tabung Haji* is analysed using ratios and it is found that the institution has experienced mixed performance for the measures used. Table 4 shows the institution's ROA and ROE performances from 1989 through 2004. For the ROA, the higher performance is achieved for the period between 1993 through 1998. In this period the profit after tax and *zakat* increase tremendously whereas the total asset, on average, remains stable (see table 5). However, beginning 1999, the performances start to falter following the financial crisis and it continues through 2003, but pick up slowly a year later. Similarly, the ROE of the institution achieves its highest performance also between the years 1993 through 1996. In 1997 and onward, however, the performance starts to fall dramatically due to increase in total equity (see table 5).

Liquidity (CR and CAR)

The table 4 also shows the liquidity ratios which comprises of current asset (CR) and current asset ratio (CAR). The CR of the *Tabung Haji* shows an excellent performance in the late 80s, and late 90s. However, the performance drops drastically in the year 2000 onward and remains low until 2004. As for the CAR, the results show highest performance in the early stage of the sample period. However, the performance drops drastically in the middle of the 90s but rises steadily after that. The results also indicate that the financial crisis in 1997 in general has no immediate effect on both the *Tabung Haji* CR or CAR performances.

Table 4: Profitability and Liquidity Performance

Year / Performance	ROA (%)	ROE (%)	CR	CAR
2004	4.0	20.7	8.2858	0.22
2003	3.6	22.0	9.9088	0.18
2002	3.5	15.5	6.6108	0.26
2001	3.1	9.9	7.6874	0.36
2000	3.4	23.9	4.1265	0.21
1999	5.3	31.2	8.9237	0.19
1998	7.7	41.9	34.0492	0.18
1997	9.3	75	22.6101	0.12
1996	7.7	217.6	1.1168	0.30
1995	7.4	143.4	2.5320	0.50
1994	8.2	231.0	7.8849	0.30
1993	8.3	136.0	11.9455	0.60
1992	6.2	16.0	6.0939	0.38
1991	6.4	15.4	2.8409	0.39
1990	4.5	9.5	23.4125	0.39
1989	6.2	8.1	21.3778	0.52

Table 5: Total Asset, Total Equity and Profit After Zakat and Taxes, 1989 – 2004. (RM million)

Year	Total Asset	Total Equity	Profit after zakat and taxes
2004	12426.00	2412.837	500
2003	11621.807	1887.967	414
2002	10603.461	2372.366	368
2001	10876.827	3385.464	336
2000	9830.819	1411.897	338
1999	8361.004	1470.266	458
1998	7211.976	1337.863	561
1997	6057.724	758.90	596
1996	4500.404	167.017	363
1995	3307.809	175.649	251
1994	2447.591	92.061	214
1993	2028.725	125.718	170
1992	1618.057	638.522	102
1991	1278.993	546.775	54
1990	1209.672	573.158	54
1989	1123.165	872.613	70

CONCLUSION

In this study, we examine the deposits mobilization, funds utilization and operating performance of *Tabung Haji* Malaysia – also known as Pilgrim Fund Board of Malaysia, an Islamic non-banking financial institution which helps Malaysian Muslim to save gradually for pilgrimage and at the same time enables them to have effective participations in investment activities permissible in Islam through savings.

The deposits mobilization measures the sources of saving scheme offered while the funds utilization measures the use of mobilize fund of the *Tabung Haji*. The study also investigates the operating performance of the *Tabung Haji* measured by Return on Asset (ROA), Return on Equity (ROE), Current Ratio (CR) and Current Assets Ratio (CAR). Our findings indicate that the *Tabung Haji* has utilized most of the deposits available to profitability investment and financing strategy only for the period 2000 onward. With regards to its operating performance, we observe that the *Tabung Haji* as an institution which provides services such as pilgrimage, finance and investment to its depositor is operationally and financially sound, and credible.

Several policy implications can be drawn from these findings. First, the Islamic non-banking financial institution such as the *Tabung Haji* which is own by the government is able to operates and manage the saving funds efficiently in helping the *ummah* (the people). Secondly, similar to those of banking institution the *Tabung Haji* in general, is also being affected by the financial crisis in 1997, but with less magnitude. Finally, further expansion of the *Tabung Haji* for tapping of its economic opportunities should be the next agenda on the part of the government. There is the need to replicate the *Tabung Haji* formula in other Muslim countries and societies. The success owes itself to political will and social vision of Muslim *ummah* in making the *Tabung Haji* as a most convenient place to save and invest owing to its modern facilities and professionally manage institution.

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