

## ZAKAT AND ISLAMIC BANKING INSTITUTION IN MALAYSIA: A REVIEW ON ANTI-MONEY LAUNDERING POLICY

Nur Amalina Abdul Ghani <sup>1\*</sup>  
Aizuddinur Zakaria <sup>2</sup>

<sup>1</sup> Faculty of Business Management and Professional Studies, Management and Science University Malaysia

<sup>2</sup> HAL Fintech Advisor, Malaysia

\*Corresponding author (Email: nuramalina\_abdghani@msu.edu.my)

Accepted: 18 Februari 2021, Processed: 20 Februari 2021, Published: 31 Mac 2021

---

**Abstract:** Many zakat institutions have been participating actively in zakat collection and charitable donation to support the existing social system in Malaysia. There are zakat collection practices by the Zakat institutions which are receiving zakat monies that are derived from individual or corporation's profitable business. Unlike Islamic banks which have their own Shariah Committee and Anti-money laundering unit established, there is a lack of internal process to scrutinise the source of income for zakat purposes by an individual or Muslim owned companies. In view of the above context, this study provides the relevant authorities with a better understanding and exposes potential connections between Zakat and anti-money laundering, and further promotes the establishment of a required process to protect the Islamic social finance industry from terrorism related source of funds.

**Keywords:** Zakat Authorities, Islamic Banks, Anti-money Laundering, Policy, Payment Gateway

---

### INTRODUCTION

Charitable giving has been long practised in Islam which can be categorised into obligatory donation (zakat) and voluntarily donation (*sadaqah*) to the needy people. The holy Quran has clearly mentioned the obligation of zakat in the chapter of 21, verse 73 and encouragement of *sadaqah* in the chapter of 2, verse 177.

However, following the traumatization of the 9/11 tragedy in 2001, since the horrendous terrorist attempt in American history, in which the anti-money laundering statute was updated in October 2001 by the Financial Action Task Force (FATF), which is the largest foreign body to tackle money laundering, anything connected to Islam should be viewed with skepticism to incorporate anti-terrorism support.

Islamic banks and charitable bodies such as Zakat institution are linked by the charitable donation practices but are somehow misinterpreted as the entity that funds terrorist acts. In Malaysia, all banks, including Islamic banks, are regulated by Malaysian Central Banks, while Bank Negara Malaysia (BNM) is governed by AMLATFPUAA.

It is also very important for Zakat authorities to see if the zakat fund and non-halal profits have been properly scrutinised through audited annual reports of the Zakat payers. It thus summarises the overt connection between Zakat institutions and the money laundering and the indirect relationship between Islamic banks and terrorism financing. The present research describes further how the three elements are related to one another and finally the researcher conclusively offers policy recommendation to all the stakeholders to enhance public confidence towards Zakat collection method by local authorities.

## RESEARCH OBJECTIVES

Against the above backdrop, the purpose of this analysis is to examine the governance and relationships between Zakat authorities, Islamic bank, and money-laundering. In particular, the purposes of the present study are:

- a) To investigate the potential connection between a zakat authority and Islamic banks.
- b) To identify the requirement set by zakat authorities related to anti-money laundering in Malaysia.
- c) To explore the potential connection between anti money laundering and Islamic banks.

## LITERATURE REVIEW

### Zakat Authorities and Islamic Banks

In the Ninth Schedule (Legislative Lists), Item 15 (c), as the supreme rule, the Federal Constitution of Malaysia 1957 specifically classified the charities and charitable institutions; charitable trusts and trustees except Wakaf; Hindu endowments are regulated by List I of the Federal List. Instead, Item No.1 of List II of the State List stipulated that,

*"the Wakafs and the definition and regulation of charitable and religious endowments, organisations, trusts, charities and charitable organisations existing entirely within the State, Zakat, Fitrah and Baitulmal or related Islamic religious properties, mosques or any Islamic public place of worship, with the exception of matters covered by the said Federal Registry, which shall be autonomously regulated and managed by each State in Malaysia"*

(Constitution, 2010).

Malaysia except the two regulators established to oversee the charitable bodies at Federal level which are (i) Registrar of Societies (ROS) that is fully governed under Societies Act 1966 and (ii) Companies Commission of Malaysia (CCM) that established under The Registrar of Business (ROB) and Registrar of Companies (ROC) (Ali, 2017). However, Zakat authorities are governed under the different enactment or regulation in Malaysia. According to Ahmad & Shofian (2010). There are four types of Zakat establishment in Malaysia. First, under zakat enactment, a company was created such as Jabatan Zakat Negeri Kedah. This was established under the 1955 Kedah Zakat Act. The enactment was totally isolated from the Islamic Rule Enactment Administration of Kedah. Under the Sarawak Islamic Council (Corporation) (Amendment) 1984 Ordinance, Tabung Baitulmal Sarawak was adopted with the responsibility of handling the aggregation and allocation of zakat and baitulmal funds. Second, a company

was set up under the enactment of Islamic law by the state administration, such as Lembaga Zakat Selangor, which was established under the Trustee (Corporation) Act 1952. Pusat Urus Zakat Pulau Pinang (PUZ) is a subsidiary formed under the Companies Act 1965 of Majlis Agama Islam Pulau Pinang. The third is a company that has been set up with a responsibility to collect zakat only under an Act or State Administration of Islamic Law Enactment. It will redirect all collections to Primary, which distributes the received zakat to the legitimate beneficiaries. PPZ-MAIWP (Harta Suci Sdn. Bhd.); PZM-MAIM (Pusat Zakat Melaka Sdn. Bhd.); PZNS-MAINS (Pusat Zakat Negeri Sembilan Sdn. Bhd) are examples of such examples. Fourth, from its own unit or department of Baitulmal or zakat centers, MAIN gathers and distributes zakat, such as Majlis Agama Islam Johor; Majlis Agama Islam Perlis; Majlis Agama Islam dan Adat Melayu Perak; Majlis Agama Islam dan Adat Istiadat Melayu Kelantan; Majlis Agama Islam dan Adat Istiadat Melayu Terengganu and Majlis Ugama Islam Sabah Islam Sabah.

There are three types of company zakat accounting that are being practised in different states and organisations in Malaysia, according to Mohamed Abdul Wahab et al. (1995). The first approach involves only existing assets, i.e., cash in hand, bank cash, receivable accounts, and stocks or inventory. Through this method, the value of stock is stated at cost as being practiced by the Bait-al-Mal of Perak, Kedah, Wilayah Persekutuan and other States. The second method consists of current assets and profit from investments. Two institutions, i.e Bait-al-Mal of Perlis and the Pilgrim Management Fund Board have been identified to practice this method which considers the stock value at the current market prices. The third method is the difference between current assets and current liabilities which is called net working capital and added to the profits for the year.

According to Abbas, Sulaiman and Bakar (2018), twelve Islamic banks paid zakat from the 16 Islamic banks and more than half of these banks (eight banks) followed the prescribed system by JAKIM, namely the *urfiyyah* method or the modified method of growth capital and the *syariyyah* method or adjusted method of working capital. Although other approaches authorised by their Shariah Committee were followed by another four of the Islamic banks (Samsuwatd Zuha Mohd Abbas, 2018). Islamic banking institution' means an individual, who is authorised, which is:

- a) an Islamic bank authorised, with the exception of an overseas Islamic bank licensed;  
Or
- b) a registered bank or a licensed investment bank authorised by the Bank to be authorised by the Bank to carry on Islamic banking undertakings according to FSA Section 15 (Malaysia B. N., Financial Reporting for Islamic Banking Institution, 2019)

Shockingly, Barber (2011) reported that many terrorist financing activities linked to Zakat funds happened periodically in the countries of the United States of America and the Middle East where Islamic bank's facilities were fully used.

**Table 1. The list of Terrorist Events Involving Zakat and Islamic Banking Transactions**

<b>Islamic Banks Involved</b>	<b>Event Triggered</b>
National Commercial Bank	More than \$74 million was moved from the bank to Islamic organisations by Zakat, which channeled funds to Al-Qaeda.
Al-Taqwa Bank	Involved in the money laundering activities with Al-Qaeda.
Islamic Banks Involved	Event Triggered

*Notes: Taken from Barber, S. (2011)*

### **Islamic Banks and Anti-Money Laundering**

The Anti-Money Laundering and Anti-Terrorism Financing Act (AMLATFA) implemented in 2001 in Malaysia and the development of the AML/CFT regime by financial institutions have significantly led to a much-improved understanding of Islamic Finance in Malaysia (Omar, Abdul Rahman, & Tarmizi, 2013). Under Section 14 of the AMLATFPUA, as a reporting entity in Malaysia, Islamic banks have an obligation to respond.

Islamic banks are also subject to the Islamic Financial Services Act 2013 (IFSA), the intent of which is primarily to ensure that their goals, operations, corporate affairs, and activities are all in accordance with Islamic law. BNM, the Central Bank of Malaysia, regulates Islamic banks in Malaysia and supervises the introduction of AMLATFPUAA in the form of Islamic and traditional financial activities.

BNM, the Central Bank of Malaysia, regulates Islamic banks in Malaysia and oversees the implementation of AMLATFPUAA within the scope of the activities of Islamic and traditional financial institutions, all of which are specified by the First Schedule of AMLATFPUAA as reporting institutions. Although BNM is responsible for overseeing and investigating any matters relating to its established Financial Intelligent Unit is tasked to oversee, and investigate any matter related to financing terrorism such as updating list of charitable bodies that have connected to the international terrorism activity to the shared database. Hence Islamic banks are regularly regulated by BNM in the area of anti-money laundering and counterterrorism as compared to other non-regulated industries.

The latest Joint Assessment Study also reported that some 264 persons accused of being affiliated with six terrorist organisations have been arrested, including Jemaah Islamiah, Darul Islam, Tandzim Al Qaeda, Abu Sayyaf and other similar groups, who have the power and potential to finance terrorist acts (2015 FATF).

### **Anti-Money Laundering and Zakat Authorities**

Charity management should share more detail and make significant attempts to convince more supporters to send more contributions, according to Atan, et al. (2012). Charity groups are responsible for specifically reporting how the funds are being used, in accordance with the previous research by Mohd Nasir, et al. (2009).

Mohd Yasin & Zul Kepli (2018) have reported that the terrorist group also exploits and manipulates contributions from people and charities to raise sympathetic support for the terrorist group's ideology. In addition, the Ministry of Home Affairs of Malaysia has released a detailed list of terrorist organisations, including the List of Persons, Organizations and Other Groups and Undertakings considered to be a designated organisation pursuant to AMLATFA 2001 Section 66b (1) (Act 613) (Affairs, 2019). In addition, the Ministry has also referred to two international sanction lists as guidelines for freezing individuals or groups.

Omar et al. (2013), on the other hand, critically stressed that the credibility of Islamic banks and zakat authorities, have been compromised by extremist support and illegal funding for terrorist acts. It is also very relevant to check the Islamic banks' audited annual report to see if the true non-halal income has been registered and the public charity has been accepted.

## RESEARCH METHODOLOGY

The study performs data collection using the primary and secondary sources. The first phase encompasses paper-based sources in collecting and analysing data from the audited financial statements of Islamic banks in Malaysia. The report is used to identify the relationship between Islamic banks and zakat payable.

In response to that BNM has published and maintained a list of sixteen local Islamic banks and five International Islamic banks that licensed to be operated in Malaysia in its official website (Malaysia B. N., Financial Stability, 2020). From the sixteen licensed Islamic banks in Malaysia, five major Islamic banks are selected to be explored and reviewed. The present study undertakes annual reports for the year of 2019 to explore and thoroughly review the various forms of disclosed financial information such as Charity Fund that derived from the zakat payable for the financial period.

**Table 2. Tabulation of Zakat Contributions Collected from The Selected Islamic Banks**

<b>Islamic Banks/ Comparative Variables</b>	<b>Bank Islam Malaysia Berhad</b>	<b>CIMB Islamic Bank Berhad</b>	<b>Maybank Islamic Bank Berhad</b>	<b>RHB Islamic Bank Berhad</b>	<b>Al-Rajhi Banking and Investment Corporation (Malaysia) Berhad</b>
Zakat Payable	Yes	No	Yes	Yes	Not applicable.
Amount of Zakat Paid	RM10,796,000	RM3,700,000	RM714,000	RM5,000,000	
External Auditor	KPMG	PricewaterhouseCoopers	Ernst & Young	PricewaterhouseCoopers	Ernst & Young
Shariah Audit Report	Approved	Approved	Approved	Approved	Approved
Zakat Recipients	Payable to state zakat authorities. The	As approved by the Shariah	Payable to state zakat authorities	Recipients are determined by the Zakat	Not Applicable

Bank has also been authorised by several zakat authorities to distribute zakat to the eligible recipients or asnaf. Advisory Council. Committee and subject to the approval of the Shariah Committee.

*Notes: Taken from Audited financial statements of Bank Islam Malaysia Berhad, CIMB Islamic Bank Berhad, Maybank Islamic Bank Berhad, RHB Islamic Bank Berhad, Al-Rajhi Banking and Investment Corporation (Malaysia) Berhad for the year ended 2019*

The second phase of data collection involves desktop search of electronic sources in which study of requirements set by the local zakat authorities in Malaysia for zakat collection.

**Table 3. The List of Zakat Authorities in Malaysia and Their Online Collection Method**

State	Zakat Authorities	Zakat Payment Online
Kelantan	Majlis Agama Islam dan Adat Istiadat Melayu Kelantan	Available at <a href="https://www.e-maik.my/v2/index.php/ms/e-perkhidmatan-kami/joompay-e-zakat-payment">https://www.e-maik.my/v2/index.php/ms/e-perkhidmatan-kami/joompay-e-zakat-payment</a> Available at
Terengganu	Majlis Agama Islam Dan Adat Melayu Terengganu	<a href="http://www.maidam.terengganu.gov.my/index.php/en/component/k2/item/289-zakat-payment-channel">http://www.maidam.terengganu.gov.my/index.php/en/component/k2/item/289-zakat-payment-channel</a> Available at
Pahang	Pusat Kutipan Zakat Pahang	<a href="http://www.zakatpahang.my/index.php/bayar-zakat">http://www.zakatpahang.my/index.php/bayar-zakat</a>
Kedah	Lembaga Zakat Negeri Kedah Darul Aman	Available at <a href="https://jom.zakatkedah.com.my/">https://jom.zakatkedah.com.my/</a> Available at
Perlis	Majlis Agama Islam dan Adat Istiadat Melayu Perlis	<a href="https://maips.gov.my/index.php?option=com_sppagebuilder&amp;view=page&amp;id=911&amp;lang=ms">https://maips.gov.my/index.php?option=com_sppagebuilder&amp;view=page&amp;id=911&amp;lang=ms</a> Available at
Pulau Pinang	Zakat Pulau Pinang	<a href="http://www.zakatpenang.com/zpp/index.php/component/content/article/87-kutipan/154-cara-pembayaran-zakat">http://www.zakatpenang.com/zpp/index.php/component/content/article/87-kutipan/154-cara-pembayaran-zakat</a>
Selangor	Lembaga Zakat Selangor Available at <a href="https://www.zakatselangor.com.my">https://www.zakatselangor.com.my</a>	
Perak	Majlis Agama Islam & 'Adat Melayu Perak Darul Ridzuan	Available at <a href="https://ezakat.maiamp.gov.my/v4/">https://ezakat.maiamp.gov.my/v4/</a>
Negeri Sembilan	Majlis Agama Islam & 'Adat Melayu Negeri Sembilan	Available <a href="https://www.zakatns2u.biz/utama.php">https://www.zakatns2u.biz/utama.php</a>

Melaka	Zakat Melaka	Available at <a href="https://www.izakat.com/ui.php">https://www.izakat.com/ui.php</a>
Johor	Majlis Agama Islam	
	Available at	
Negeri Johor	<a href="https://www.maij.gov.my/portfolio/zakat-johor-online-payment">https://www.maij.gov.my/portfolio/zakat-johor-online-payment</a>	
Sabah	Majlis Ugama Islam Sabah (MUIS)	Available at <a href="https://appszakat.sabah.gov.my/user/index.php">https://appszakat.sabah.gov.my/user/index.php</a>
Sarawak	Tabung Baitulmal Sarawak	Available at <a href="https://www.tbs.org.my/www/">https://www.tbs.org.my/www/</a>
Wilayah Persekutuan	Pusat Pungutan Zakat Majlis Agama Wilayah Persekutuan	Available at <a href="https://www.zakat.com.my/">https://www.zakat.com.my/</a>

*Notes: Taken from the official website of individual zakat authorities*

## EMPIRICAL RESULTS

Table 2 explicitly indicates that all the audited financial accounts have been scrutinised by the appointed Shariah Committee and qualified accountant which include the source and calculation of zakat fund. Apart from Al-Rajhi Banking and Investment Company (Malaysia) Berhad, all Islamic banks have registered zakat payable as verified by the external auditor. This was attributed to the bank's zakat notes in its 2019 Annual Report, where its holding firm, which is based in Saudi Arabia will pay on its behalf. The results also revealed that for the year of 2019, the four Islamic banks contributed a total of RM20 million for zakat purposes. However, Maybank Islamic Bank Berhad and Al-Rajhi Bank did not report in their financial statements the recipients of zakat, while other Islamic banks listed the recipients of zakat as the state zakat authorities.

Table 3 enlightened that online payment has been offered as part of zakat collection by zakat authorities through their official website. From the sampling taken, it can be summarised that online payment is widely practised by the local zakat authorities which allow any individual to make monies transfer via payment gateway such FPX, JomPAY, SnapNgo, Internet Banking, PahangGo, MYEG, POS Online and MIGS (Islamic credit card facility). The research however found that only name, address, and identification number of individual payers are required to be filled up upon making payment. All the payment gateways are linked to banking facilities which are currently under BNM surveillance.

## Research Limitation

This research has potential limitations. Apart from the time constraint, the current study is unable to represent the research results with the expected money laundering cases in the absence of primary sources such as obtaining opinion from Amil or agent. For this cause, future studies should be carried out in- collaboration with Zakat authorities to focus on qualitative methods which include interviewing and reaching out to more Amil or agents.

## Recommendation

First, Zakat authorities should have anti-money laundering policies in their zakat collection process, where the State zakat authorities are the only bodies approved and authorised to collect zakat in Malaysia by the State Enactment. In addition, the embedded Artificial Intelligence (AI) and electronic Know-Your-Customer (KYC) technologies could help zakat authorities to develop robust internal control and automatically check against possible hazards. In general, this would shield the zakat payor or donor from the use of illicit funds or terrorism financing for zakat purposes. This requires complete coordination with other government departments, such as the Malaysian Royal Police and the National Anti-Corruption Commission which have access to the list of sanction organisations worldwide.

In a nutshell, the related authorities, such as Majlis Agama Islam Negeri, should create a holistic system to ensure that the regulated and non-regulated industry are well aware as to how the fund reveals the source of the zakat fund transparently before offering a donation or zakat payment. This entails setting up a nationwide platform to digitally reveal the origins of the zakat fund publicly.

## CONCLUSION

This thesis explores the potential relation between the authorities of Zakat and anti-money laundering laws concerning the system of collecting zakat. The Zakat payer should be able to recognise the purpose of charitable fund whether it is for zakat or fidyah or non-halal income. This is because zakat disposal can only be disbursed to deserving beneficiaries of zakat or called Asnaf, that mostly will be managed and distributed to by the state zakat authority in Malaysia (Lembaga Zakat Selangor, 2019). The study also suggests that there is a lack of anti-money laundering policy available on the zakat authority's website.

The research also empirically substantiated the Islamic banks' activities regarding the declaration and disbursement of zakat that materialised due to the absence of reporting requirements and the disclosure of beneficiaries of the zakat fund. In addition, this report observed a shortage of know-your-customer policy by the Zakat authorities to collect additional information regarding the source of income for the zakat payment. As far as the banking concern, all the income has been verified by the Shariah committee and qualified auditor.

There are too many possible risks or exposures to misuse of zakat practises by transpiring funds obtained from illicit activities such as extremism from unknown Zakat payors. It is hoped that the public will have more confidence in the Zakat collection system online not only in Malaysia but around the globe by raising the said requirements.

## REFERENCES

- Affairs, M. o. H., 2019. List of Individuals, Entities and other Groups and Undertakings Declared by The Minister Of Home Affairs As Specified Entity Under Section 66b(1). Retrieved on 1 February 2021, from [http://www.moha.gov.my/images/maklumat\\_bahagian/KK/kdndomestic.pdf](http://www.moha.gov.my/images/maklumat_bahagian/KK/kdndomestic.pdf)
- Ali, Z. a. H. H., 2017. Regulating Charitable Organisations in Malaysia: Challenges and Recommendations. *Pertanika Journal Social Sciences & Humanities*, 25(S), pp. 45-50.



- Al Rajhi Banking and Investment Corporation (Malaysia) Berhad (2019), Financial Statements For The Financial Year Ended 31 December 2019. Retrieved on 1 February 2021, from ARBM\_Financial\_Statement\_Dec2019.pdf (alrajhibank.com.my)
- Bank Islam Bank Berhad (2019), Financial Statements. Retrieved on 1 February 2021, from BI\_AR19\_Finan\_19.08.pdf (bankislam.com)
- Barber, S. (2011) The "New economy of Terror": The Financing of Islamist Terrorism. *Global Security Studies*, Winter 2011[online]. 2(1), 1-13.
- CIMB Islamic Bank Berhad (2019), Annual Report 2019. Retrieved on 1 February 2021, from <https://www.cimb.com/content/dam/cimb/group/documents/investor-relations/financial-information/cimb-islamic-bank-berhad/2019/CIMB-Islamic-Bank-2019-20200619.pdf>
- Constitution, F., 2010. Agc. [Online]. Retrieved on 1 February 2021, from [http://www.agc.gov.my/agcportal/uploads/files/Publications/FC/Federal%20Consti%20\(BI%20text\).pdf](http://www.agc.gov.my/agcportal/uploads/files/Publications/FC/Federal%20Consti%20(BI%20text).pdf)
- Malaysia, B. N., 2020. Financial Stability. [Online]. Retrieved on 1 February 2021, from <https://www.bnm.gov.my/index.php?ch=li&cat=islamic&type=IB&fund=0&cu=0>
- Malaysia, L. o., 2013. Islamic Financial Services Act. [Online] Retrieved on 1 February 2021, from [https://www.bnm.gov.my/documents/act/en\\_ifsa.pdf](https://www.bnm.gov.my/documents/act/en_ifsa.pdf)
- Maybank Islamic Bank Berhad (2019), Maybank Islamic Berhad Financial Statements:FY2019 ended 31 December 2019. Retrieved on 1 February 2021, from Maybank\_Islamic\_Financial\_Statements\_1HFY2019.pdf
- Omar, H. N. & Hassan, R., 2019. Shariah Non-Compliance Treatment in Malaysian Islamic Banks. *IJMAR International Journal Of Management And Applied Research*, 4(4), pp. 220-233.
- RHB Islamic Bank Berhad (2019), Annual Report 2019. Retrieved on 1 February 2021, from <rhb-islamic-bank-berhad-fy2019.ashx> (rhbbank.com.sg)
- Yasin, N. M., 2015. Regulation of Islamic Banks and Allegations of Lax Control of Money-Laundering. *International Journal of Cross-Cultural Studies*, 1(1), pp. 15-25.
- Ahmad S.M., & Shofian A. (2010). Transformasi Pengurusan Zakat di Malaysia, paper was presented in International Islamic Development Management Conference (IDMAC), on 21-22 December 2010 USM, Pulau Pinang, Malaysia.