

Another world's first: The first Shariah compliant Islamic reverse mortgage financing scheme



MALAYSIA

By Siew Suet Ming

The unprecedented socioeconomic impact of the COVID-19 pandemic on Malaysians was devastating, forcing many members of the Employees Provident Fund (EPF), a compulsory savings and retirement plan for private sector workers in Malaysia, to withdraw their retirement savings prematurely. Under three withdrawal schemes approved by the government in 2021, 7.4 million EPF members withdrew about RM101 billion (US\$22.05 billion). This left half of the members under 55 years of age with less than RM10,000 (US\$2,183.06) in their accounts and another 3.6 million members with less than RM1,000 (US\$218.31). Consequently, nearly three-quarters of these members may not have adequate funds to retire above the poverty line.

Reflecting its continued commitment to supporting the growth of Islamic finance and creating an inclusive and sustainable society, Cagamas launched the world's first Islamic reverse mortgage financing facility (or Skim Saraan Bercagar Islamik (SSB-i)) in October 2022. This innovative Shariah compliant financing scheme came less than a year after the introduction of its conventional Skim Saraan Bercagar (SSB) in December 2021.

Incorporated in 1986, Cagamas is Malaysia's national mortgage corporation mandated to promote homeownership through the provision of liquidity in the secondary mortgage market and support the growth of the capital markets, Islamic finance and other priority sectors through the issuance of innovative instruments.

With an initial allocation of RM100 million (US\$21.83 million), both SSB and SSB-i aim to provide a fixed and steady stream of fixed monthly payout to senior citizens aged 55 and above, by leveraging against the value of their fully-paid homes without sacrificing the homeownership. SSB-i has similar product features as SSB except that SSB-i is effective until the retiree reaches the age of 120, which is far beyond the expected lifetime of Malaysians (Figure 1).

SSB-i financing utilizes the commodity Murabahah (Tawarruq) structure where the eligible customer, who owns a property which is free of any encumbrances (such as mortgage or financial liability) and not subject to any Hibah (gift), will enter into the Tawarruq transaction with Cagamas as the facility provider. The property is then pledged as security in return for the fixed monthly payout until the customer dies or reaches the age of 120, whichever is earlier.

The cash payout ceases if the customer lives beyond 120 years, and he/she can

continue residing in the house until death. Upon death, Cagamas will sell the property to settle the outstanding amount due if no settlement is made by the heirs. Cagamas will then return any excess to the heirs or estate and bear the loss for any shortfall. The payout amount will largely depend on two key factors: (i) the customer's age; and (ii) the property value, location and type of residential dwelling.

As the first global Shariah compliant reverse mortgage product, SSB-i demonstrates how Islamic finance via impact-based offerings can cater to different market segments, including senior citizens. As the challenges of an aging population become more pressing and product understanding grows, we hope to see other Islamic finance providers explore similar offerings for this social class, with more enhanced features and structures using other Shariah concepts like Ijarah (lease) and Musharakah (partnership) to expand their value-based intermediation roles and capabilities. This, together with the regulators' and policymakers' pledge for a more inclusive economic society, gives assurance that the needs of the aged will be met, allowing retirees to enjoy more productive lives. ☺

Siew Suet Ming is chief rating officer at RAM Ratings. She can be contacted at suetming@ram.com.my.

Figure 1: SSB-i key product features

