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ISLAMIC BANKING IN MALAYSIA: FROM BEGINNING TO DEVELOPMENT PHASE

It seems that the main goal of Islamic finance is equal distribution because Islam believes that the mass exploitation of resources for obtaining maximum profits could create inequity in society; besides the principles of Islamic transaction are required to check inequities, exploitation and the creation of an imbalance in Islamic society by using a different type of concepts, rules and principles to eradicate unjust enrichment. In other words, Islamic banks are in the race to innovate and introduce many numbers of products and services to remain competitive in the industry as well as profitable. In order to compete with conventional banks and capture greater profits and market share, Islamic banks are making huge efforts to acquire the maximum number of customers by providing and offering a large number of products as an alternative for interest-based banking services and products. Malaysia is one of the first countries in the world that started Islamic banking and supported this type of banking for customers around the world. It has been argued that this country is the most developed nation in the world in the area of Islamic banking and the competition that exists between Islamic banking and convention banking methods is very fierce. This paper summarizes different phase of Islamic banking in this country and the steps that have been passed by this nation to have such a success in the banking industry.

Key words: Islamic banking, transaction, Islamic finance, Malaysia, payment.

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Малайзиядағы Ислам банкі: бастауынан даму кезеңіне дейін

Ислам қаржысының басты мақсаты – тең бөлу, өйткені Ислам максималды пайда алу үшін ресурстарды жаппай пайдалану қоғамдағы теңсіздікті тудыруы мүмкін деп санайды; сонымен қатар, исламдық мәміле қағидаттары әділетсіз байытуды жою үшін әртүрлі тұжырымдамаларды, ережелер мен қағидаларды қолдану арқылы Ислам қоғамындағы әділетсіздікті, қанауды және теңгерімсіздікті болдырмау үшін қажет. Басқаша айтқанда, ислам банктері салада бәсекеге қабілетті болып, тиімді болып қалу үшін инновациялар мен көптеген өнімдер мен қызметтерді үлесті алу үшін ислам банктері банктік қызметтер мен пайыздық өнімдерге балама ретінде көптеген өнімдерді ұсыну арқылы клиенттердің ең көп санын тартуға көп күш жұмсайды. Малайзия – ислам банкингі іске қосқан және бүкіл әлемдегі клиенттер үшін банкингінің бұл түрін қолдаған әлемдегі алғашқы елдердің бірі. Бұл ел ислам банкингі саласындағы әлемдегі ең дамыған ел болып саналады және ислам банкингі мен дәстүрлі банктік әдістер арасындағы бәсекелестік өте қатал. Бұл мақала осы елдегі ислам банкингінің әртүрлі кезеңдерін және осы елдің банк саласында осындай жетістікке жету үшін жасаған қадамдарын қысқаша сипаттайды.

Түйін сөздер: ислам банкингі, транзакция, ислам қаржысы, Малайзия, төлем.

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Исламский банк в Малайзии: от начала до фазы развития

Главная цель исламских финансов – равное распределение, поскольку Ислам считает, что массовая эксплуатация ресурсов для получения максимальной прибыли может создать неравенство в обществе; кроме того, принципы исламской транзакции необходимы для сдерживания несправедливости, эксплуатации и создания дисбаланса в исламском обществе путем использования различных концепций, правил и принципов для искоренения несправедливого

обогащения. Другими словами, исламские банки участвуют в гонке за инновациями и внедрение большого количества продуктов и услуг, чтобы оставаться конкурентоспособными в отрасли и прибыльными. Чтобы конкурировать с обычными банками и получать большую прибыль и долю на рынке, исламские банки прилагают огромные усилия для привлечения максимального числа клиентов, предоставляя и предлагая большое количество продуктов в качестве альтернативы банковским услугам и продуктам на основе процентов. Малайзия – одна из первых стран в мире, которая запустила исламский банкинг и поддержала этот тип банкинга для клиентов по всему миру. Утверждалось, что эта страна является наиболее развитой страной в мире в области исламского банкинга, и конкуренция между исламским банкингом и традиционными банковскими методами очень жесткая. В этой статье кратко описаны различные этапы исламского банкинга в этой стране и шаги, которые были предприняты этой страной для достижения такого успеха в банковской сфере.

Ключевые слова: исламский банкинг, транзакция, исламские финансы, Малайзия, платеж.

Introduction

The concept of Islamic banking is old although this system has been represented in the last quarter of the twentieth century (Khattak & Rehman, 2010). Prohibition of interest or usury (*riba*) in all type of transaction, undertaking business and trade activities based on legitimate and fair, giving *zakat* (alms tax), cooperation for the advantage of society, prohibition of monopoly, and development of *halal* aspect could be categorized as the main principle of the Islamic banking system (Mirakhor, 2000). In other words, the main basic difference between Islamic and non-Islamic banks refers to the fact in which Islamic banks make their operation based on equity participation that predetermining return rate has not been guaranteed while non-Islamic banking system is based on both debt and equity system which are driven by interest. Ecchabi & Olaniyi (2012) argued that in fact, Islamic finance is built based on three main principles which are the prohibition of *riba* (usury), the prohibition of gambling, and *gharar* (ambiguity) and lastly protection of community members by promotion of loss and profit-sharing. During the last three decades, Islamic banking system has emerged as a viable and competitive substitute for the conventional banking system.

Islamic banking development in Malaysia has gone through a maturity procedure and well engaged to the regulator (Jamshidi & Hussin, 2018; Mohammad & Shahwan, 2013). Islamic banking history in Malaysia backs to when Tabung Haji (the Pilgrims Management and Fund Board) established in 1963 by the government of this country due to providing systematic mobilization of funds from Muslims to support them for pilgrimage performance of Makkah and also encourage them to participate in economic activities and investment opportunities. In point of fact, because of these unique features, Tabung Haji

is known as its first kind in the world (Mokhtar et al., 2008). Afterward, many parties in Malaysia requested the establishment of Islamic banks (Ecchabi & Olaniyi, 2012).

As one of the most progressive Muslim nations in the world, Malaysia has promoted the Islamic banking system implementing idea (Abdullah et al., 2012; Jamshidi et al., 2014a). Islamic banking scheme in Malaysia has emerged as a competitive constituent related to the overall financial system which is constructed to complete conventional banking and financial system as an indicator of economic growth which leads to development. It seems that Malaysia has been successful in applying a dual banking system which enhanced to be the first country to have an Islamic banking system that is operating in parallel with conventional schemes (Thambiah et al., 2011c).

Malaysia is considered to be an international Islamic banking and finance central part in which government support exists for reinforcing a dual banking system in which the Islamic banking system is implemented in parallel with the conventional banking scheme. Actually, Malaysia is considered as the first Islamic country that has supported the expansion of Islamic banking system (Khattak & Rehman, 2010).

For Islamic banks to remain competitive, their expertise in Shariah compliance services and products must be complemented by their ability to adopt modern practices and technologies into their business processes (Butt & Aftab, 2013). Although opportunities for the Islamic banking system continue to grow, it is needed to develop services and products that are accustomed to consumers' preferences and needs, since intense competition is the notable scenario in today banking sector not only in Malaysia, but also around the world and the same goes for Islamic banks in the context of this country (Thambiah et al., 2013).

Literature review

AbdulQawi & O Lynn (2001) have defined Islamic bank as non-interest based financial institution that is completely based on Islamic laws with efficient and creative financial engineering which is able to offer effective and competitive banking structure, trade finance, investment, commercial and real estate financing services. The Islamic banking system in Malaysia was established in 1983 and was followed by the Interest-Free Banking Scheme introduction in conventional banking content in 1993, which resulted in the dual banking system emergence in this country (Zainol et al., 2008). The Central bank of Malaysia which is known as Bank Negara Malaysia (BNM) and is responsible for governing the banking institutions of Malaysia, decided to construct an Islamic banking system to operate in parallel with the conventional banking system (Hamid & Azmin, 2001; Jamshidi et al., 2014b).

Bank Islam Malaysia Berhad (BIMB) is known as the first Islamic bank which was established in 1983 (Rosly & Bakar, 2003). Since that time, this bank has been acting as a national heritage that provides Malaysian Islamic financial needs and requirements (Amin et al., 2010).

To offer Shariah-compliant products and services to Malaysian bank customers, BIMB as the first Malaysian pure Islamic bank was established in 1983. This bank was the monopoly player in Malaysia to provide Shariah-compliant products and facilities. At the same time, conventional banks were not permitted to offer these kinds of products because of two key reasons.

Firstly, the Malays' government gave BIMB 10 years lead period before allowing for the establishment of other Islamic banks to enable this bank to fully focus on Islamic banking development. Second, it allowed BIMB to offer as many as adequate services and products possible for Malaysian bank customers, particularly Muslim clientele (Amin, 2008).

BIMB development prompted the government of this country to expand the Islamic banking industry in this nation (Laldin, 2008). Creating a more conducive environment for encouraging competition among the banks and also giving the opportunity of gaining higher market share to banks was the aim of the next period (Mokhtar et al., 2008). Then, during this period, the conventional banks were allowed to offer Islamic banking products and services under the scheme which was known as an Islamic window (Echchabi & Olaniyi, 2012).

Therefore, in the early 1990s, the government decided to launch the "Islamic window" concept which allowed conventional banks in Malaysia to provide Islamic banking products and facilities to consumers. Conventional banks have been encouraged to penetrate the Islamic banking industry by offering financial services and packages that are in parallel with existing Islamic bank financial banking services due to its extension and eye-catching growth. More specifically, some of the conventional banks present Islamic financial and banking services through the 'Islamic window' concept (Azzam & Rettab, 2013).

In detail, in March 1993, as soon as BNM introduced the "interest-free banking scheme", the concept of Islamic window was established (Baba & Amin, 2009). In addition, the foreign financial institutions namely OCBC, Standard Chartered, Citibank, HSBC to name a few participated in this system. BIMB, RHB Islamic Bank and Bank Muamalat Malaysia Berhad (BMMB) are the main three Islamic banks that represent an Islamic banking system in Malaysia since the end of 2004, while Maybank and Public Bank still prefer to use Islamic window instead of Islamic subsidiary (Amin, 2008).

Different Islamic scholars have defined Islamic banks and Islamic banking. However, most of the previous studies have not defined Islamic banking expression but focusing on general explanations as well as zooming on Islamic banking historical aspects (Mohammad & Shahwan, 2013). Islamic bank has been defined as an institution that provides interest-free services, products and facilities where simultaneously Shariah principles would control bank operation through Shariah Advisory Council (SAC) (Amin, 2008a).

Meanwhile, as a definition of the International Association of Islamic Banks (IAIB) indicates, Islamic banking is a kind of banking scheme that was established to use the funds according to Islamic Shariah principles and this declares that all banking activities from transactions of deposits, products and services offered by Islamic banks for its consumers should be by Shariah law (Abdullah et al., 2012). In other words, the Islamic banking scheme could be considered as a banking system with a sense of right, wrong and ethics (Hamid & Masood, 2011).

Islamic banking aims to provide moral and actual distribution of social fairness as well as resources in the society of Muslims compared to the western financial system which is structured based on capitalistic economic features and financial processes (Iqbal, 1997). Surprisingly, the attractiveness of the Islamic banking system is not only limited to Islam-

ic banks, and conventional banks around the world are paying attention to Islamic banking structure as well (Naser et al., 1999).

Research Methodology

During the past decades, Islamic banking and the Islamic financial system have experienced a marvelous raise of about 20 percent per annum. In fact, Islamic banking was established due to the fulfillment of the religious obligation but currently has changed to a more structured and organized banking system in the difficult and challenging economic situations (Bashir et al., 2011). There is a willingness to introduce the Islamic banking system as an alternative for conventional banking schemes among Pakistanis corporate customers (Rustam et al., 2011). We have chosen Malaysia to explain this necessity and also how a country expands Islamic banking products and services for bank customers. An important reason for selecting Malaysian bank customers as study sample refers to the fact that the Malaysian government has decided to be an Islamic financial hub center in the region (Dusuki & Abdullah, 2007) and in turn, this requires Islamic banks to understand and identify the factors that influence demand and usage of Islamic banking products and particularly Islamic credit card among different types of customers in Malaysia.

In most the studies related to Islamic banking adoption in the context of Malaysia only Muslim customers were considered (Ahmad et al., 2002; Naser et al., 1999) and limited numbers of studies in Malaysia have considered non-Muslims as respondents and sample of study (Aysraf et al., 2007). In addition, 60% of the Malaysian populations are Muslims and therefore potential target market exists for Islamic banks. Moreover, due to the fact that non-Muslim customers see the benefits from the Islamic banking system, this scheme is not only of interest by Muslim customers and therefore there is high competition for attracting and retaining Muslim and non-Muslim consumers (Hoq & Amin, 2010). Due to obvious cross-cultural and religious differences between Muslims and Non-Muslims as two key customer segments in Malaysia (Amin & Isa, 2008) this study would be important and would consider both types of these customers in the study and discuss availability and expansion of Islamic banking to them.

Results and Discussion

Islam has announced business not only holy or permit, but also has inspired different people to

do business (Hossain, 2009). It is cited by Hossain (2009) that the prophet Mohammad ever said that “fair and honest businessman will be the company of the prophet, the truthful and the Martyrs” that highlight the significance of being honest and fair in conducting Islamic banking business activities not only in Malaysia but also in other Muslim countries (Amin, 2010).

Accordingly, Islamic banking in Malaysia seems to be at an improving phase and tremendous growth opportunities exist as this system is more and more acquiring prominence and as well there is potential for Malaysia to be a regional hub for Islamic banking and finance (Jamshidi & Kazemi, 2019).

According to Thambiah et al. (2011b), the improvement of the Islamic banking scheme in Malaysia has been transitioned through four distinct phases. In the first phase, Islamic financial institutions were established. Conventional banks were permitted to provide Islamic banking products and services through the application of Islamic banking windows to attain greater outreach in the second phase. Accordingly, at this phase, initially, three conventional banks namely United Malaysian Banking Corporation, Bank Bumiputra Malaysia (current CIMB) and Maybank were allowed to present Islamic banking services.

After achieving critical mass for the first two phases, Islamic subsidiaries were introduced in the third phase in 2004. As a final point, the government liberalization policy began in 2006 as capacities were enhanced and allowed the integration process of the international financial system with Islamic finance (international players) in the fourth phase of the development. Currently, Islamic banking in Malaysia has evolved as a competitive component of the overall financial and monetary system, complementing the conventional financial system as a driver of development and economic growth.

Besides, both Islamic and conventional banks are actively side by side in Malaysia where 60 percent of its population is Muslim (Amin & Isa, 2008). Meanwhile, the importance of Islamic banking and finance is no longer deniable in Malaysia (Mohamed et al., 2011). It is a vision of the Malaysian government to developing this country into a regional Islamic banking hub (Thambiah et al., 2013).

Moreover, Ahmad & Haron (2002) pointed out that Malaysia is not only committed to develop the Islamic banking system, but also would attempt to complete the Islamic financial system. Indeed, it is one of the economic and financial vision of the Malaysian government to expand a progressive and robust Islamic banking industry which is rooted based

on Islamic core principles that lead to serve the requirement of nations' economy in the best manner.

To put it briefly, Malaysia seems to be succeeding in applying a dual banking system which is known as the first country that full fledge Islamic banking system is operating in parallel with conventional banking scheme (Thambiah et al., 2011b). This could be since the Islamic banking system and Islamic finance well is emerging as a vital component of the general financial system in Malaysia which can contribute and enhance the growth and improvement of the Malaysian economy (Dusuki & Abdullah, 2007). Conducting banking based on Shariah principles is known the Islamic banking and more than 100 various Islamic financial products and services are offered by different banks in Malaysia through utilizing multiple Islamic concepts and principles (Marimuthu et al., 2010).

The awareness of customers in regard with Islamic banking is an important key for its growth and expansion, although still many people have a question concerning Islamic products around the world and compare these Islamic banking services with conventional banking products (Imran et al., 2001). More specifically, Jalaluddin (2002) has argued that the main cause that Islamic banking and financial system has not accomplished widespread success among Muslim customers in Australia refers to a lack of awareness regarding its principles among this population. In another study by Rammal & Zurbruegg (2007) point toward that while most the Australian Muslim respondents in their study are eager to purchase Islamic banking products and services, but they are not appropriately informed and aware about these products' operation and function. What is more, Gerrard & Cunningham (1997) have as well pointed to lack of awareness concerning Islamic financial terms among both Muslim and non-Muslims in Singapore.

Inconsistent, Ali Raza et al. (2012) indicated that people and customers in Pakistan have more tendencies to conventional banking compared to Islamic banking scheme and this refers to less awareness of users in regards to Islamic banking. Moreover, although Imam & Zubairu (2011) indicated that people in the Borno State of Nigeria are aware of Islamic banking and finance and there is a possible application for this system, however Daud et al. (2011) believed that there is a need for more customer awareness on the potential benefits and advantages of the Islamic banking system to the economy and people of Nigeria. Therefore, banks should attempt to create awareness in regards to Shariah-compliant products and services among varied customers (Ha-

mid & Masood, 2011). Furthermore, Islamic banks are required to enhance customers' awareness about their products and services to compete with conventional banks for attaining long-term benefits (Ahmad et al., 2010). Likewise, it would be necessary for Islamic bank managers to enhance awareness among bank customers and employees to improve their products and services as well as their performance (Ahmad et al., 2011).

It is inevitable to implement customer education programs by Islamic banks in order to increase customers' awareness level on the unique aspects of higher purchase facility or Al Ij Erah Thumma al-Bay (AITAB) and other Islamic banking products offered by Islamic banking institutions (Abdullah & Dusuki, 2006). By implementing an effective marketing strategy which enhances the awareness of customers about their service quality, bankers would be able to attract more consumers (Ahmad et al., 2010). In more detail, Amin (2008) argued that an appropriate awareness and knowledge regarding Islamic home financing from different information sources would enhance customers' understanding which consequently would lead to Islamic home financing utilization.

Conclusion

Based on Islamic principles, money is a medium of exchange and it does not have any value in itself and is not allowed to be increased to more amount of money via interest payment (Marimuthu et al., 2010). More specifically, the Quran describes that "profit must be earned from the exchange of goods and services but not from the exchange of money itself. Islamic banks fundamentally emerged to fill this basic need of Muslim to enjoy banking services in compliance with Islamic principles" (Khan et al., 2008).

In addition, according to Ecchabi & Olaniyi (2012), Islamic finance and banking are built based on three major principles, specifically, *riba* or usury prohibition, *gharar* (ambiguity) and gambling prohibition, and lastly profit and loss sharing promotion to protect the interest of the society members. Hosain (2009), has documented the reasons of prohibition *riba* in Islamic banking. In general, Islamic banks are allowed any trade or activities that are permissible and as well people should perform any financial activities that are ethical and in consonance with Islamic foundations, values, thoughts and philosophies.

Although the activities in the Islamic banking system are conducted based on Shariah principles

in which payment or receipt of interest is strictly prohibited, but Islamic banks are allowed to represent similar products and services with conventional banks offered products (Naser et al., 1999). It seems that the Islamic banking system is different from the

conventional system due to the prohibition of interest (riba) in Islam because banks are not permitted to offer a fixed amount of rate of return on deposit or charging interest on the loan as well (Chong & Liu, 2009).

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