

Islamic Banking and Methods Used In Malaysia

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3.1. COULD YOU GIVE SOME BACKGROUND INFORMATION ON THE HISTORY OF ISLAMIC BANKING IN MALAYSIA?

Malaysia is a South East Asian country located on the Malay peninsula (Bayindir, 2013: 126). Malaysia, with a population of 31.5 million, is an Asian country where the majority of them are Muslims and where more than one race lives together (Wahab, 2016: 3). Malays make up 58% of the Malaysian population, 25% are of Chinese origin, 7% are of Indian origin, and the rest are people from different ethnic backgrounds.

The official religion of the Malaysian state is Islam. Although it is stated in the constitution in this way, there are people who

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belong to many different religions other than Islam. For this reason, Malaysia is a country where people from different religions live together. While approximately 62% of the living population is Muslim, the rest belong to different religions.

The development of Islamic banking took place in the early stages due to the prevalence of Islam in Malaysia and many other reasons (Türker, 2010: 31). The development of Islamic banking in Malaysia has been influenced by internal and external factors. Mit Ghamr Local Savings Bank, which was established in Egypt in 1963 and led to the development of modern Islamic banking, followed by the establishment of the Islamic Development Bank in Saudi Arabia and the Dubai Islamic Bank in the United Arab Emirates in 1975, contributed to the development of Islamic banking in Malaysia are external factors. The strengthening of religious knowledge among Muslims through various educational institutions in Malaysia and the interest of the Muslim people in an interest-free banking system are internal factors that are effective in developing interest-free banking in Malaysia. In addition to this, the success of Tabung Haji as a respected financial institution has increased awareness of Islamic banking among Muslims (Zin et al., 2011: 481).

The history of Islamic banking and finance in Malaysia began with the establishment of the Hajilar Management and Fund Board (PMFB), which provides interest-free finance in the country. PMFB was established in August 1969 to collect and direct the savings of fund owners who want to fulfil their pilgrimage (Sukmana and Kassim, 2010: 9).

The Pilgrims Management and Fund Board, known as Tabung Haji was established to achieve the following objectives;

- Helping the Muslim community to save their savings and thus supporting Muslims who want to go on pilgrimage with these savings.
- To ensure that the savings of Muslims are used in areas that are appropriate in terms of fiqh.

- To provide various services and protect the interests of Muslims who fulfil the pilgrimage duty (Ahmad et al., 2012: 18).

Tabung Haji is an institution that still operates today. Tabung Haji, which has 8,850,000 deposits as of 2015, has collected a total of RM 18.3 billion in deposits. He paid RM 59 million of his income in 2015 as zakat to those in need. For this reason, Haji is one of the country's leading organizations in zakat payments (Habibah et al., 2016: 51-53). Haji is seen as the oldest financial institution in the modern sense. Haji was not an organization that served the general public. The reason for this was only concerned with the savings of Muslims who wanted to perform their pilgrimage. For this reason, Haji is not seen as an inclusive institution. For example, Tabung Haji would not serve non-Muslims or even people outside Malaysia. For this reason, Tabung Haji did not have an aspect covering the general society (Alhabshi, 2017: 5).

Tabung Haji has pioneered the development of Islamic finance, although it is not an institution that meets the needs of the general public. Haji has been an institution that has led the way in increasing the demands for Islamic finance in Malaysia and the government's initiatives in this field (Mansor, 2009: 113). For this reason, the government appointed a national steering committee to work in the field of Islamic banking on 30 July 1981. This committee has studied the activities of both Egypt's Faisal Islamic bank and Sudan's Faisal Islamic bank. As a result, the committee's recommendations were presented to the Prime Minister of Malaysia on July 5, 1982 (Haron, 2004: 3-4). These recommendations include;

- An Islamic bank that will carry out its activities within the framework of Islamic law should be established.
- The bank to be established should be included in the 1964 corporate act.
- A new Islamic banking law should be established. Supervision and oversight of this law should be the responsibility of the Central Bank of Malaysia.

- Established Islamic banks should establish a jurisprudence advisory board within its own body to examine the compliance of their activities with Islamic law (Haron, 2004: 4).

Developing the infrastructure of Islamic banking as a model for other countries in line with the decisions of the national management committee, the Central Bank of Malaysia (BNM) has left many Muslim countries behind in this area. In Malaysia, Islamic banks are subject to a separate law and order. A central council has been established to facilitate the compliance of Islamic banks in the country with the rules of law. The authority to license and supervise Islamic banks was given to BNM by the Islamic Banking Law enacted in 1983. Consisting of 60 parts and eight parts, the Islamic Banking Law is concise, clear and regulatory. Another important development in Islamic banking in Malaysia was the issuance of interest-free investment certificates and securities with the State Investment Law enacted in 1983. Government investment certificates, which are considered liquid assets, have been an important tool for Islamic banks in managing their liquidity.

As a result of the important steps taken to establish the foundations of Islamic banking, Bank Islam Malaysia Berhad (BIMB), accepted as the first Islamic bank in Malaysia, was established in 1983 (Çobankaya, 2014: 35). BIMB was established with a total of 580 million initial capital, of which 500 million registered capital and 80 million paid-in capital. The Malaysian government, PMFB and various religious councils also contributed to BIMB's initial capital (Sukmana and Kassim, 2010: 9).

The increased awareness of the Muslim population and Islamic values has created a great demand for Islamic banks that offer interest-free banking products. BIMB was established to meet these demands. BIMB; It promoted and marketed various interest-free products such as Karz-ı Hasen, Mudaraba, and Musharaka (Ling et al., 2012: 2). BIMB recorded strong growth one year later, demonstrating the need for Islamic finance. Total

assets, which were \$170.7 million at the end of 1983, more than doubled at the end of 1984 to \$369.8 million at the end of 1984. In addition, sharp increases were observed in deposits and loans. While deposits increased from 91 million dollars to 274.9 million dollars, loans increased from 40.7 million dollars to 249.8 million dollars (Haron and Ahmad, 2000: 2). This performance of BIMB has accelerated the development of Islamic finance. Approximately ten years later, the bank reached 80 branches and 1200 employees. These data revealed the applicability of Islamic finance in the country. Over time, the bank began to be listed on the Kuala Lumpur Stock Exchange, established in 1992. For this reason, BIMB has been operating in the stock market since 1992.

The developments regarding sukuk, one of the important financial instruments of Islamic banking, took place in 1990. Sukuk, valued at RM 125 million (\$ 30 million), was issued in Malaysia by Shell MDS, a foreign-owned company.

Another development in terms of Islamic banking in Malaysia is the initiation of the dual banking system. In 1993, the “Islamic Banking Window Plan” was introduced so that traditional banks could offer Islamic finance and products (Türker, 2010:31). In this way, traditional banks have also had the opportunity to provide the products and services of Islamic banks. In this way, the dual banking system, in which interest and interest-free instruments can be offered, has emerged in Malaysia.

BNM’s long-term goal is to enable Islamic banks to compete with traditional banks. For this reason, the Islamic Interbank Money Market (IIMM), which is very important to Islamic banks, was established by BNM in 1994 (Borham, 2013: 41-42). IIMM would help to develop Islamic interbank trade, increase Islamic interbank investment and develop the Islamic interbank check clearing system (Khiyar, 2012: 114). After the establishment of IIMM, another important development in Islamic banking was experienced in the Islamic Capital Market (ICM) field. The Islamic Capital Markets Unit was established by SC in 1995.

Another development in the field of Islamic banking and finance in Malaysia is the Sharia Advisory Board (SAC), which was established in 1997 both in the field of capital markets and within the body of BNM. This board investigates the compliance of Islamic financial instruments with Islamic law. SAC advises BNM in areas related to Islamic law. It is also responsible for ensuring that all Islamic banking and takaful products comply with Islamic law. With the establishment of SAC in Malaysia, a standard was established in terms of Islamic law in the field of Islamic banking and finance.

Bank Muamalat Malaysia Berhad (BMMB), the country's second Islamic bank after BIMB, was established in Islamic banking. With the number of Islamic banks increasing to two in the country, the marketing of products and services among Islamic banks has become widespread.

In Malaysia, which wanted to strengthen and further develop the Islamic banking system, in 1995, BIMB was included in the Research and Training Institute known as "BIRT" at that time. Over time, this institution became an Islamic banking institution and was named Malaysia Islamic Banking and Finance Institute (IBFIMM).

He pioneered the establishment of the Islamic Financial Services Board (IFSB), an important institution in the field of Islamic banking and finance, which was established in 2002. In the same year, an important development was experienced in the field of takaful, and the Malaysian Takaful Association (MTA) was established.

After the important developments in the field of Takaful, an important development has also been experienced in the field of Islamic banking. In line with its goal of expanding Islamic banking, BNM granted licenses to 3 foreign banks in 2004 under the 1983 Islamic Banking Law. Making the economy open to foreign Islamic banks to seize new growth opportunities and increase

the development of the Islamic financial system is an important development (BNM, 2005: 160).

Attaching importance to human resources in the development of Islamic banking, Malaysia established the “International Center for Islamic Finance Education” (INCEIF) in 2006 and the “International Sharia Research Academy” (ISRA) in 2008.

As a result, Malaysia has developed many Islamic banking and finance products. He also pioneered the establishment of various Islamic organizations. In addition, various educational institutions have been established to contribute to the development of Islamic banking and finance. Today, Malaysia is under the leadership of many important institutions related to Islamic finance. Today, Malaysia has adopted the dual banking system in terms of Islamic banking. He pioneered establishing the Islamic interbank money market, a first in the world. All these developments in Islamic banking and finance in Malaysia have made Malaysia a leading country in the field of Islamic finance today.

3.2. WHAT ARE THE ISLAMIC BANKS IN MALAYSIA?

According to the Bank Negara Malaysia, the number of Islamic Banks in Malaysia has grown to 17 (BNM, 2022). Among these 17 banks, ten banks are from Malaysia.

Meanwhile, the remaining seven banks are foreign. Below is the list of Islamic Banks in Malaysia, 2021.

Table 3.1.: Islamic Banks in Malaysia

NO	NAME OF ISLAMIC BANKS	OWNERSHIP
1.	Affin Islamic Bank Berhad	Local
2.	Al Rajhi Banking & Investment Corporation (Malaysia) Berhad	Foreign
3.	Alliance Islamic Bank Berhad	Local
4.	AmBank Islamic Berhad	Local
5.	Bank Islam Malaysia Berhad	Local
6.	Bank Muamalat Malaysia Berhad	Local
7.	CIMB Islamic Bank Berhad	Local
8.	Hong Leong Islamic Bank Berhad	Local
9.	HSBC Amanah Malaysia Berhad	Foreign
10.	Kuwait Finance House (Malaysia) Berhad	Foreign
11.	Maybank Islamic Berhad	Local
12.	MBSB Bank Berhad	Local
13.	OCBC Al-Amin Bank Berhad	Foreign
14.	P.T Bank Muamalat Indonesia, Tbk	Foreign
15.	Public Islamic Bank Berhad	Local
16.	RHB Islamic Bank Berhad	Local
17.	Standard Chartered Saadiq Berhad	Foreign

Sources: Bank Negara Malaysia, 2022

3.2.1. Affin Islamic Bank Berhad

Affin Islamic Bank, which was established on 13 September 2005 and started its activities on 1 April 2006, is a full-fledged Islamic bank providing individual and corporate services. It offers Musharakah Mutanaqisah, Mudarabah, Istisna, Ijarah, Murabahah and other Islamic financial services. Affin Islamic Bank is a member of the Investment Account Platform (IAP) created by Bank Negara. The Bank defines its vision as Premier Local and International Islamic Financial Institution (Affin Group, 2022). The shareholding structure of the bank is as follows:

Lembaga Tabung Angkatan Tentara: 35.24%

Baustead Holdings Berhad: 20.81%

The Bank of East Asia, Limited: 23.65%

EPF: 7.08%

Others: 13.22%

3.2.2. Al Rajhi Banking & Investment Corporation (Malaysia) Berhad

Al Rajhi Bank is one of Malaysia's foreign banks offering Islamic banking services. It was founded in October 2006 and started its operations in 2007. The bank is fully owned by Saleh bin Abdul Aziz Al-Rajhi and Brothers Co., located in Saudi Arabia. The bank offers retail, corporate and investment services with 13 branches nationwide (Al Rajhi Bank, 2022).

3.2.3. Alliance Islamic Bank Berhad

As a subsidiary of Alliance Bank Malaysia Berhad (ABMB), Alliance Islamic Bank Berhad focuses on commercial, retail and SME banking with its holistic banking approach. The bank differentiates itself from Alliance i-Wish Home Flexi, which offers the first deposit-linked housing loan in Malaysia, and Alliance CashVantage Personal Financing-i, which offers 35 types of loans.

As it is a subsidiary of the bank, the capital of the bank is fully owned by ABMB (Alliance Bank, 2022).

3.2.4. AmBank Islamic Berhad

Operating as a branch of AmBank Group, AmBank Islamic Berhad, established in 1994, provides services related to Islamic banking, Islamic fund management and Islamic capital market instruments. In addition to these, the bank also includes family takaful service. AmBank Group fully owns the capital of the bank. Sharia-compliant retail, wholesale and commercial banking services are offered under the umbrella of Islamic banking. It offers instruments such as sukuk and project finance under the roof of capital market services. (AmBank Group, 2022).

3.2.5. Bank Islam Malaysia Berhad

Bank Islam Malaysia Berhad was established on 1 July 1983. According to the bank's claim, it is the first Islamic bank in the ASEAN region. Bank Islam Malaysia Berhad offers its customers individual and commercial financing services. Within the scope of individual financing services, services such as vehicle and housing financing, credit card services, and asset management services are offered. Within the scope of commercial finance, business finance, SME finance and cash management services are offered. The bank describes its vision as "The Bank that Advances Prosperity for All" and its mission as "To Provide Solutions that Deliver Value" (Bank Islam Malaysia Berhad, 2022).

3.2.6. Bank Muamalat Malaysia Berhad

Bank Muamalat, which was established in 1999. DRB-HICOM has 70% shares, and Khazanah Nasional Berhad has 30% shares. The bank is a domestic Islamic bank providing consumer, business, and transaction banking services. The bank has 67 branches across the country and has been a member of the Global Alliance for Banking on Values (GABV) since 2017. The bank offers services such as corporate banking, investment banking, SME banking

and commercial banking under business banking. There is a sharia committee consisting of 5 people. The Bank describes its vision as “To be the preferred Islamic financial services provider” (Bank Muamalat Malaysia, 2022).

3.2.7. CIMB Islamic Bank Berhad

Established in 1987 and currently operating in 14 countries, CIMB Group Holdings Berhad’s major shareholders since March 2022 are Khazanah Nasional Berhad with 25.7%, Employees Provident Fund with 15.8% and Kumpulan Wang Persaraan (Diperbadankan) with 6.2%. CIMB Islamic is the Islamic banking services arm of the CIMB Group. CIMB Islamic started its activities in 2003. Providing services to 19 million customers with its 33.000 employees as of July 2022, the bank offers financial instruments such as murabaha, ijara, tawaruq and credit cards (CIMB Islamic Bank, 2022).

3.2.8. Hong Leong Islamic Bank Berhad

Hong Leong Islamic Bank Berhad, which started its operations in 2005 as a subsidiary of Hong Leong Bank, now offers Islamic banking services with five fully-fledged branches in addition to 1100 self-service banking services. Bank wholly owned by Hong Leong Bank (Hong Leong Islamic Bank, 2022). The bank offers saving accounts, credit cards, real estate and automobile financing, as well as takaful services (Hong Leong Islamic Bank, 2022).

3.2.9. HSBC Amanah Malaysia Berhad

Operating as a branch of HSBC Bank, HSBC Amanah Malaysia Berhad is one of the foreign banks serving in Malaysia. The bank offers personal and housing finance products (HSBC Amanah Malaysia, 2022).

3.2.10. Kuwait Finance House (Malaysia) Berhad

One of the seven foreign banks operating in Islamic banking in Malaysia is Kuwait Finance House Berhad. The bank started its activities as the first foreign bank to obtain a banking license in

2005 and was established as a branch of the Kuwait Finance House. Expressing its vision as the leading and preferred regional Islamic bank, the bank offers individual and corporate finance services (Kuwait Finance House Berhad, 2022). Within the scope of corporate finance, it has instruments such as working capital finance, asset finance and trade finance (Kuwait Finance House Berhad, 2022).

3.2.11. Maybank Islamic Berhad

Established in 2007 as a subsidiary of Mayban, Maybank Islamic provides its customers with property and vehicle financing as well as retail banking. The bank also offers takaful products and provides mudaraba account services for the customer (Maybank Islamic, 2022).

3.2.12. MBSB Bank Berhad

MBSB Bank Berhad, which started its activities in 2013 (MBSN Bank, 2022) as a subsidiary of Malaysia Building Society Berhad, established in 2005, provides its customers with credit card services, saving accounts and current account services under retail banking. Under commercial banking, it offers services such as contract banking, equipment banking and corporate banking (MBSN Bank, 2022).

3.2.13. OCBC Al-Amin Bank Berhad

OCBC Al-Amin Bank Berhad, a subsidiary of OCBC Group, is one of the foreign banks providing personal and commercial banking services. There are also takaful products. It offers murabahah and ijara-based financing services under the roof of business finance (OCBC Al-Amin, 2022).

3.2.14. P.T Bank Muamalat Indonesia

The bank was founded in 1991. P.T Bank Muamalat Indonesia is one of the Islamic banks operating in Malaysia. In addition to the investment account and current account services, Bank Muamalat offers its customers housing finance, working capital finance, commercial finance, pension fund, takaful and ijara products. The

Bank has determined its vision as “The Best Islamic Bank and Top 10 Bank in Indonesia with Strong Regional Presence” (P.T Bank Muamalat Indonesia, 2022).

3.2.15. Public Islamic Bank Berhad

Public Islamic Bank Berhad, one of the local Islamic banks in Malaysia, started its operations in 2008. All of its capital belongs to Public Bank. Public Bank started to offer window banking and Islamic products in 1993. With the establishment of Public Islamic Bank Berhad in 2008, Islamic banking services began to be carried out through an independent bank. Within the scope of business finance, the Bank offers products such as working capital finance, trade finance and vehicle finance. It also offers services such as credit card services, current and investment account services, housing finance and vehicle finance within the scope of retail banking services. Takaful services are also offered by the bank. Like other banks, the bank has a sharia committee (Public Islamic Bank Berhad, 2022).

3.2.16. RHB Islamic Bank Berhad

Serving as a branch of RHB Banking Group operating in the ASEAN region, RHB Islamic Bank Berhad offers products such as credit cards, personal finance, vehicle and home finance within the scope of retail banking. Within the scope of business finance, it offers services such as SME asset finance, overdraft accounts, and new entrepreneurship finance. The bank also offers takaful and wealth management services (RHB Banking, 2022).

3.2.17. Standard Chartered Saadiq Berhad

Saadiq Berhad Bank operates under Standard Chartered, which was established in 1984 and is one of the oldest banks in Malaysia. The bank offers personal and business banking services. Examples of banking services offered by the bank, such as time deposits, housing finance, and Tawaruq account services, can be given as examples (Standard Chartered Bank, 2022).

3.3. WHAT KINDS OF PERSONAL LOANS DO MALAYSIAN ISLAMIC BANKS PROVIDE?

There are various types of consumer finance products that are offered by Islamic banks in Malaysia. They are based on multiple concepts such as *Murabahah*, *Ijarah*, *Tawaruq*, *Musharakah Mutanaqisah* and *Al Ra'n*.

3.3.1. Murabahah

Murabahah means the sale of a commodity at the cost price. The seller will purchase the commodity on behalf of the buyer at a cost price and sell it back to the buyer at a profit (cost + mark-up price). It is a cost-plus sale profit, and the seller is required to disclose his cost price as well as profit. For example, Ali would like to purchase a television in Syarikat ABC, which costs RM 2,500. He informed Bank Setia on his intention to purchase the television. Bank Setia will purchase the television on his behalf for RM 2,500 and pays Syarikat ABC. Bank Setia will then markup, e.g., 20 % of the cost price, i.e., RM 500. Then sell the television to Ali for RM 3,000 (RM 2,500 plus RM 500).

3.3.2. Ijarah

Ijarah is the sale of intangible assets (usufruct). The lessor is the financier whilst the lessee is the customer. The lessee holds the right (*haqq*) only to the extent of utilizing the property without selling it. The ownership of the asset is not transferred. An example is the use of *Ijarah Thumma Al Bai* (AITAB) when Mustafa wants to buy a Proton for RM 50,000. He will inform Bank Muamalat Malaysia Berhad (BMMB). BMMB will buy the car on Mustafa's behalf and lease it to him together with the bank's profit. He will pay the instalment amount (rental and profit) on a monthly basis until settlement.

3.3.3. Tawaruq

Tawaruq means to buy on credit and sell at spot value to obtain cash; meaning that the transaction is not the need of the buyer; he simply wants liquidity, which he gets by purchasing a commodity on credit and selling the same forthwith for cash. For example, Johan applies RM 10,000 from Bank Bumi for personal use. Bank Bumi will purchase a commodity from broker A and sell it to Johan. Johan will, in turn, sell commodity broker B for cash. He will then pay the financing amount of RM 10,000 plus profit to Bank Bumi.

3.3.4. Musharakah Mutanaqisah

Musharakah Mutanaqisah is a joint partnership between two partners, e.g., to buy a house for RM 200,000. The partners jointly agree to do profit sharing 90% between the bank and the customer 10%. The customer will pay RM 20,000 to the developer. The bank will finance the remaining RM 180,000 and lease the house to the customer based on rental. The customer will pay the rental amount plus purchase an additional share on monthly basis until the settlement of the full amount.

3.3.5. Al Rahn

Al Rahn is a contract of pledging security whereby a valuable asset is placed as collateral. It is binding if possession of the pledge has taken place. The customer will pledge gold based on the concept of Wadiah Yad Amanah (safe custody). The financial institution will approve the financing amount based on the value of gold and charge a fee based on Qardhul Hassan (loan without interest).

There are many types of personal loans. Although their names change according to the banks, the provisions taken as a basis are listed above. The loan types of some of these banks are listed in Table 3.2. below.

Table 3.2.: Personal Loans Practiced by Malaysian Islamic Banks

	Banks Loan Names	Explanation
1	Alliance Bank CashVantage Personal Financing-i	It allows the consumer to apply for this product to clear off the outstanding credit card debt of other banks or financial institutions.
2	Al-Rajhi Personal Financing-i	It is an unsecured Islamic personal loan which can be used for personal consumption and debt consolidation.
3	KFH Murabahah Personal Financing-i	It is an unsecured Islamic Personal Loan based on a commodity murabahah structure.
4	HSBC Amanah Personal Financing-i	It is unsecured personal financing that does not require collateral to back it up and can be immediately disbursed when approved.
5	AFFIN Islamic Personal Financing-I	It is based on the Shariah concept of Tawarruq (Commodity Murabahah).
6	AmIslamic Bank Personal Financing-I	It is an excellent way of financing a planned or unplanned event to tide you over, with competitive profit rates available in the market. It fully complies with Shariah requirements based on the concept of Murabahah Tawarruq (MTQ).
7	Bank Muamalat Malaysia Personal Financing-I	It is a financing facility designed to provide cash financing to the customers for personal consumption/ use, which does not contradict the Shariah principles. Generally, this product is based on <i>Tawarruq</i> as its underlying Shariah concept for the provision of financing. The financing structure under the <i>Tawarruq</i> arrangement involves the combination of <i>Wa'd Mulzim</i> , <i>Murabahah</i> , <i>Wakalah</i> and <i>Bai' Wadhi'ah</i> contracts.
8	Bank Islam Malaysia	It provides three types of personal loans: Personal Financing for Professional Program, Personal Financing-i Non-Package and Personal Financing-i Package.
9	CIMB Islamic Bank Berhad	It provides two types of personal loans: Term Financing-I Secured By Asb Certificate and Xpress Cash Financing-i.

10	Hong Leong Islamic Bank Personal Financing-i	It is based on the Tawarruq principle. By applying, HLISB will purchase a commodity at a price equivalent to your financing amount, and then sell the commodity with a profit to you on deferred payment. Then, you will appoint HLISB as your agent to sell the commodity to a third party to obtain cash for you.
11	Kuwait Finance House (Malaysia) Murabahah Personal Financing-i Generic	It is an unsecured Islamic personal financing, offered to individuals and the profit is calculated based on a flat rate basis. Murabahah and Tawarruq concepts are used for this product.
12	Public Islamic Bank BAE AG Personal Financing-I	It is also used Murabahah and Tawarruq concepts. Also, this product Encouraged to take Takaful coverage.
13	RHB Islamic Bank	It provides three types of personal loans: Personal Financing-I for the private sector, Personal Financing-I for pensioners and Personal Financing-I for the civil sector.
14	MayBank Islamic Personal Financing-I	It is an unsecured personal financing facility calculated on a fixed rate basis resulting in fixed instalment payment throughout "nancing tenure. The Shariah Contract applied is Murabahah (cost plus profit) via Tawarruq arrangement. It is a method of sale whereby the cost is made known with a marked-up price where you pay the price over an agreed period of time.

3.4 WHAT COMMERCIAL LOANS DO MALAYSIAN ISLAMIC BANKS PROVIDE?

There is various type of commercial finance products that are offered by Islamic banks in Malaysia. They are based on multiple concepts such as *Ijarah*, *Community Murabahah*, *Tawarruq*, *Mudharabah* and *Musharakah*.

3.4.1. Ijarah

Ijarah rent with an acquisition where the Islamic bank purchases the property at first and becomes the owner of the property, then the bank lease it out to the company at an agreed monthly price. A portion of each monthly payment goes towards ownership until the customer owns.

3.4.2. Commodity Murabahah

Commodity *Murabahah* (cost plus profit sale) arrangement is a method of sale with a mark-up price whereby the customer makes payment over an agreed period of time. The underlying asset for the sale transaction between the customer and the bank will be a specific tradable shariah-compliant commodity.

3.4.3. Tawarruq

Tawarruq consists of two sale and purchase contracts. The first involves the sale of an asset by the seller (bank) to the purchaser (customer) on a deferred basis. Subsequently, the purchaser of the first sale will sell the same asset to the third party on a cash and spot basis. For example, Johan applies RM 10,000 personal financing from Bank Bumi. Bank Bumi will sell a commodity to Johan on a deferred basis of RM 11,000. Johan will resell the same entity to a third party for cash RM 10,000. He will then pay Bank Bumi RM 11,000.

3.4.5. Mudharabah

It is a contract where one party provides the capital (customer), and the other (bank) provides the expertise. The profit derived

from the business will be shared based on a pre-agreed profit-sharing ratio between the customer and the bank. The capital provider will bear the loss.

3.4.5. Musharakah

It is a partnership arrangement between two parties to finance a business project. Both partners contribute to the capital, e.g. 80: 20. Profit derived from the project is distributed based on a pre-agreed profit-sharing ratio. Losses will be shared based on the capital contribution.

There are many types of commercial loans. Although their names change according to the banks, the provisions taken as a basis are listed above. The loan types of some of these banks are listed in Table 3.3. below.

Table 3.3.: Commercial Loans Practiced by Malaysian Islamic Banks

	Banks Loan Names	Explanation
1	Capital by Boost Credit	Credit up to RM100,000 financing with cash in your account within 48 hours of approval.
2	BSN Micro TemaNiaga-i Tawarruq	Open to all Malaysian small business owners, BSN Micro TemaNiaga-i Tawarruq helps get your enterprise up and running at low-profit rates and flexible repayment tenure.
3	Bank Rakyat Skim Pembiayaan Mikro-i MUSk	Bank Rakyat business financing is offering flexible instalments at a flat profit rate.
4	Bank Rakyat Skim Pembiayaan Mikro-i MEF	Low, flat profit rate and flexible repayment tenure up to 5 years.
5	Agrobank Term Financing-i	No guarantor of working capital financing for micro and small entrepreneurs to carry out Shariah compliant business activities in the agriculture sector.

6	SME Bank Business Accelerator Program	An SME financing program for aspiring entrepreneurs to meet their working capital requirements and fixed asset purchase.
7	RHB bank Business Financing-i	RHB bank provides 13 types of Business loans. These business loan types are under named RHB Bank Business Financing-i.
8	May Bank Islam Business loans	<p>MayBank has 22 types of business loans. These MayBank Islam Business loans are:</p> <ul style="list-style-type: none"> -Cash Line-i - Project & Contract Financing - Working Capital Guarantee Scheme/-i (WCGS/-i) - Distributor Supplier Financing/-i (DSF/-i) - MaxiPlan/-i Package: Property & Business Financing - Commodity Murabahah Term Financing-i -SJPP Schemes - SME Working Capital Financing / -i -Fund - All Economic Sector / -i -CGC Scheme - BizJamin / -i & Flexi Guarantee Scheme / -i -Fund - Primary Agriculture Sector / -i -Petrol Station Dealer Financing / -i -Professional Business Loans / Financing-i -Corporate Staff Auto Scheme -SME Property & Business Financing / -i -Short Term Revolving Credit-i -SME Clean Loan / Financing -i -Penjana Tourism Guarantee Scheme-i (PTGS-i) -BizPlus/-i -SME Fixed Deposit Extra / -i -SME Micro Loan / Financing-i -Maybank SME Digital Financing -Pembiayaan Digital PKS Maybank

3.5. COULD YOU COMPARE THE DATA OF ISLAMIC AND THE OTHER BANKS IN MALAYSIA?

Islamic banking began in Malaysia in 1983 although traditional banking has existed there since ancient. It has been observed that there is an intense demand for Islamic banks, as Muslims make up a large part of the Malaysian population. Numerous foreign banks have established branches in Malaysia as a result of the growth of Islamic banking activities over the years. The effectiveness of Islamic banks in Malaysia rose with the introduction of sukuk in 1990 and the rise in sukuk issuance.

It has been observed that since interest is explicitly prohibited in the Qur'an and hadiths, the established people in Malaysia stay away from conventional banks, and the demand for banks has increased with the implementation of Islamic banks. It has been seen that the banking sector has developed and has great value with the establishment of Islamic banks and the opening of interest-free financial windows under conventional banks.

When the banking system in Malaysia is investigated, it is seen that it is divided into three types. These are Commercial Banks, Islamic Banks and Investment Banks. In the comparisons made, the values of these three banks are discussed comparatively. The total number of banks as of July 2022 is given in Table 3.4. below.

Tablo 3.4.: The Total Number of Banks in Malaysia

	<i>Commercial Banks</i>	<i>Islamic Banks</i>	<i>Investment Banks</i>
Number of Banks	Local: 8	Local: 6	Local: 11
	Foreign: 18	Foreign: 11	Foreign: 0
	Total: 26	Total: 17	Total: 11

Source: Bank Negara, Institution Type, 05.09.2022, <https://www.bnm.gov.my/regulations/fsp-directory>

As of July 2022, Malaysia had a total of 26 commercial banks (8 domestic and 18 foreign), 17 Islamic banks (6 domestic and 11 foreign), and 11 local investment banks. Comparative data for these banks as of July 2022 are shown in Table 3.5. below.

**Table 3.5.: Malaysian Banking System: Statement of Assets
(July 2022 – Million RM)**

		Banks Type	Commercial	Islamic	Investment	Total	
			Banks	Banks	Banks		
Deposits Placed and Reverse Repos	Cash and Cash Equivalents	Domestic	15,974,6	1,982,5	827,4	18,784,5	
		Foreign	8,259,9	517,5	0,0	8,777,4	
	Balances in Current Account with Bank Negara Malaysia	Domestic	341,2	180,2	2,2	523,7	
		Foreign	195,4	16,9	0,0	212,3	
	Other Deposits Placed and Reverse Repos	Domestic	45,329,9	20,9	262,5	45,613,3	
		Foreign	6,498,4	0,0	0,0	6,498,4	
	Statutory Deposits with Bank Negara Malaysia	Domestic	1,416,1	862,1	217,4	2,495,7	
		Foreign	546,2	18,4	0,0	564,6	
	Amount Due from Designated Financial Institutions	Bank Negara Malaysia	Domestic	16,625,9	46,360,0	5,070,0	68,056,0
			Foreign	60,009,0	7,986,3	0,0	67,995,3
		Commercial Banks	Domestic	15,523,2	5,433,3	2,625,5	23,582,0
			Foreign	13,052,9	102,5	0,0	13,155,4
Islamic Banks		Domestic	25,915,8	3,200,0	1,002,5	30,118,3	
		Foreign	5,406,0	0,1	0,0	5,406,0	
Investment Banks		Domestic	6,815,2	2,6	570,2	7,388,0	
		Foreign	1,5	0,0	0,0	1,5	
Other Banking Institutions		Domestic	466,7	1,712,0	618,6	2,797,3	
		Foreign	0,0	0,0	0,0	0,0	
Non-Residents		Domestic	68,582,5	1,261,4	85,3	69,929,1	
		Foreign	10,417,4	1,040,2	0,0	11,457,6	
Malaysian Securities	Investment Account Due from Designated Financial Institutions	Domestic	42,416,8	0,0	0,0	42,416,8	
		Foreign	4,287,9	0,0	0,0	4,287,9	
	Negotiable Instrument Deposits Held	Domestic	9,883,0	2,141,3	419,1	12,443,4	
		Foreign	8,443,4	849,0	0,0	9,292,3	
	Treasury Bills	Domestic	11,970,4	5,988,4	987,2	18,946,0	
		Foreign	12,679,4	361,0	0,0	13,040,3	
	Government Securities ¹	Domestic	153,987,7	87,196,6	10,282,2	251,466,5	
		Foreign	63,763,0	4,695,7	0,0	68,458,7	
	Other Securities	Domestic	157,258,6	59,052,5	10,332,5	226,643,6	
		Foreign	34,785,7	5,452,2	0,0	40,238,0	
	Loans and Advances	Domestic	893,155,8	670,287,4	7,134,4	1,570,577,6	
		Foreign	277,430,9	43,148,4	0,0	320,579,3	
Property, Plant and Equipment	Domestic	6,707,1	809,0	302,4	7,818,6		
	Foreign	2,219,1	227,6	0,0	2,446,7		
Other Assets	Domestic	173,281,6	17,290,8	10,601,9	201,174,3		
	Foreign	30,436,4	3,535,5	0,0	33,971,9		
Total Assets	Domestic	1,645,652,0	903,781,2	51,341,4	2,600,774,6		
	Foreign	538,432,5	67,951,3	0,0	606,383,8		
General Total Assets			2,184,084,5	971,732,5	51,341,4	3,207,158,4	

Source: Bank Negara, Banking System: Statement of Assets, 07.09.2022,
<https://www.bnm.gov.my/-/monthly-highlights-statistics-in-july-2022>

When the table is examined, it is seen that the total Cash and Cash Equivalent of the banks is approximately 28 billion RM, of which 19 billion RM is in domestic banks, and 9 billion is in foreign banks. It is seen that around 24 billion RM is in the hands of commercial banks, while only 2.5 billion RM is in the hands of Islamic banks. This situation demonstrates that although Islamic banks have grown and developed in Malaysia recently, they still have issues with Cash and Cash Equivalent issues. When other variables are examined, it is seen that most commercial banks are in very good condition, while Islamic banks have half the value of commercial banks. This situation is thought to be due to the high number of commercial banks, their older history and higher customer density. The source of the loans obtained is presented in detail in Table 3.6. below.

**Tablo 3.6.: Malaysian Banking System: Classification of Loans by Type
(June 2022-Million RM)**

	Commercial Banks	Islamic Banks	Investment Banks	Total
<i>Overdraft</i>	30.743,3	16.082,4	0,0	46.825,7
<i>Hire purchase Total</i>	86.168,3	97.609,3	0,0	183.777,6
<i>Hire purchase of which: Passenger cars</i>	78.274,8	94.215,4	0,0	172.490,1
<i>Leasing</i>	0,3	1.726,2	0,0	1.726,6
<i>Block discounting</i>	542,2	0,0	0,0	542,2
<i>Bridging loans</i>	4.248,3	559,6	140,3	4.948,1
<i>Syndicated loans</i>	24.310,0	16.121,9	108,1	40.540,0
<i>Factoring</i>	1.989,0	40,2	0,0	2.029,1
<i>Personal loans</i>	16.573,0	61.562,4	0,0	78.135,4
<i>Housing loans</i>	435.142,9	240.557,8	0,0	675.700,7
<i>Others</i>	324.907,7	227.032,5	702,6	552.642,8
<i>of which the maturity was: Up to one year</i>	11.138,5	7.249,1	0,0	18.387,6
<i>of which the maturity was: More than one year</i>	882.743,3	637.960,7	950,9	1.521.654,9
<i>Trade bills²</i>	49.673,9	18.840,7	0,0	68.514,6
<i>Trust receipts</i>	5.567,7	1.102,0	0,0	6.669,7
<i>Revolving credit</i>	61.135,8	37.047,3	402,7	98.585,8
<i>SPI loans</i>	5.524,6	-	299,2	5.823,8
<i>Foreign currency loans</i>	102.704,5	15.943,0	101,6	118.749,1
<i>Others³</i>	65.067,9	14.412,8	5.978,2	85.459,0
Total loans	1.208.775,0	748.638,1	7.433,4	1.964.846,4

1 Include loans sold to Cagamas.

2 Comprises customers liabilities for acceptances, own acceptances discounted, and other trade bills discounted.

3 Comprises SPI loans, loor stocking loans, non-SPI credit cards, staff loans and other loans.

Sub-total may not necessarily add up to the grand total due to rounding.

Source: Bank Negara, Banking System: Classification of Loans by Type, 08.09.2022, <https://www.bnm.gov.my/-/monthly-highlights-statistics-in-july-2022>

When the credit status of the banks is examined, it is seen that a total of 2 trillion RM loans were provided, 1.2 trillion RM loans were provided through commercial banks, and 750 billion RM loans were offered through Islamic Banks. It is understood that long-term loans are very high, and more resources are generally provided for housing loans. Although the number and total value of commercial banks are twice that of Islamic banks, it is seen that Islamic banks provide more value as loans.

The total value of banks between January 2007 and August 2021, published by Bank Negara, the Central Bank of Malaysia, was analyzed comparatively. A portion of the total value of the banks for the last 15 years is given in Table 3.7. below.

Table 3.7.: Total Assets of Banks (Million RM)

	Ocak 07	Agust. 07	Agust. 10	Agust. 13	Agust. 16	Agust. 19	Agust. 21
Commercial Banks	950.959,04	976.982,17	1.136.755,66	1.528.786,63	1.766.482,40	1.965.246,09	2.071.337,03
Islamic Banks	71.182,23	84.547,23	243.534,87	400.749,66	542.859,56	791.360,86	910.533,53
Investment Banks	65.985,87	80.312,66	60.933,77	59.746,48	50.611,64	47.112,71	50.608,32
Total	1.088.127,14	1.141.842,05	1.441.224,30	1.989.282,77	2.359.953,60	2.803.719,66	3.032.478,88

Source: Bank Negara, Banking System: Statement of Assets, 07.09.2022, <https://www.bnm.gov.my/-/monthly-highlights-statistics-in-july-2022>

Looking at the total values of the banks, it is seen that these values, which were approximately 1 trillion RM in January 2007, reached 3 trillion RM in August 2021; that is, they tripled. These values show that the total value of commercial banks has increased from 1 trillion RM to 2 trillion RM. In contrast, the full value of Islamic banks has risen from 70 billion RM to approximately 1 trillion RM. This shows that Islamic Banks have gained great momentum in Malaysia in the last 15 years.

The data of the banks for the last 15 years have been subjected to trend analysis on a monthly basis. Trend analysis; It is an analysis

that shows the percentage increase/decrease of the data covering a certain period, such as annual, monthly, or weekly, by choosing a base year, compared to the base year. One year is taken as the base year and 100 is accepted. The following years are calculated with the help of the formula shown below (Elmas, 2015, p.170).

$$\text{Trend Percent} = \left(\frac{\text{Asset Value in Related Year}}{\text{Base Year Value}} \right) * 100$$

The result of the trend analysis is shown in Figure X below.

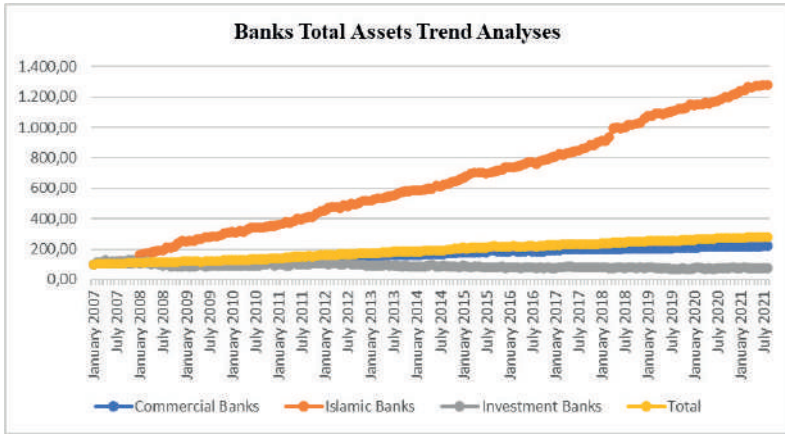


Figure 3.1.: Banks Total Assets Trend Analyses

Source: Bank Negara, Banking System: Statement of Assets, 07.09.2022, <https://www.bnm.gov.my/-/monthly-highlights-statistics-in-july-2022>

In the trend analysis, January 2007 was taken as the base year. Because the data published on the website of Bank Negara, from which the data was obtained, started on this date. Considering the data of the last 15 years, it is seen that the total value of banks has tripled, while the value of conventional banks has doubled, while the total value of Islamic banks has increased approximately 13 times. This shows that the importance given to Islamic Banks in Malaysia has increased, and thus the total volume of banks has increased.

3.6. COULD YOU GIVE INFORMATION ABOUT THE IMPORTANCE OF MOBILE BANKING IN TERMS OF ISLAMIC BANKING IN MALAYSIA?

The banking system has an important role in the finance sector that also fill an important gap in ensuring the flow of money in the functioning of the entire financial and real sector. Furthermore, the banking sector adapts to the ever-evolving global and technological changes and reflects these changes in all its systems. Nowadays, with the internet and mobile banking applications, bank customers can easily perform many transactions via computers and mobile devices without going to branches or ATMs.

Islamic banking is also trying to catch up with the technological trend that conventional banks have caught and to harmonize its halal products with those brought by this trend. In terms of financial inclusion, mobile banking is important to serve customers equally and have the same opportunities at the time.

When it comes to mobile banking, one of the first things that come to mind is financial inclusion. Because the mobile applications that go into the pockets of the users mean that everyone carries a branch of the bank with them anywhere and anytime. Table 1 provides an example of how easily the products of Islamic banks can enter our lives because of financial investment (Seman and Ariffin, 2017). Shown products are just a few of the financial services and products available. The concept of financial inclusion covers all the essential elements that can be implemented in the framework of Islamic banks (Islamic Financial Services Board, 2020).

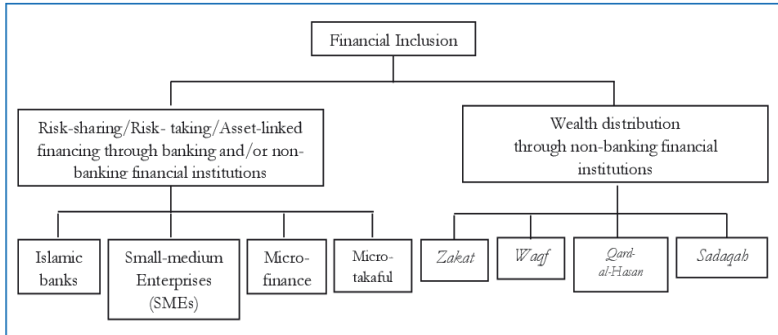


Figure 3.2.: Financial Inclusion Through Islamic Finance (Seman and Ariffin, 2017)

Source: Seman, J.A., & Ariffin, A.R. (2017). Financial Inclusion Through Islamic Finance: Measurement Framework.

For these reasons, it is important to understand mobile banking not only as extended branches of Islamic banks but also as providing services without any limit of place and time. For this reason, the users’ satisfaction is considered essential for developing and implementing new mobile banking products on the market. The mobile banking transactions which are between 2016 – 2020 as Figure 1 show us the potential of Islamic mobile banking in the sector (Müller, 2021).

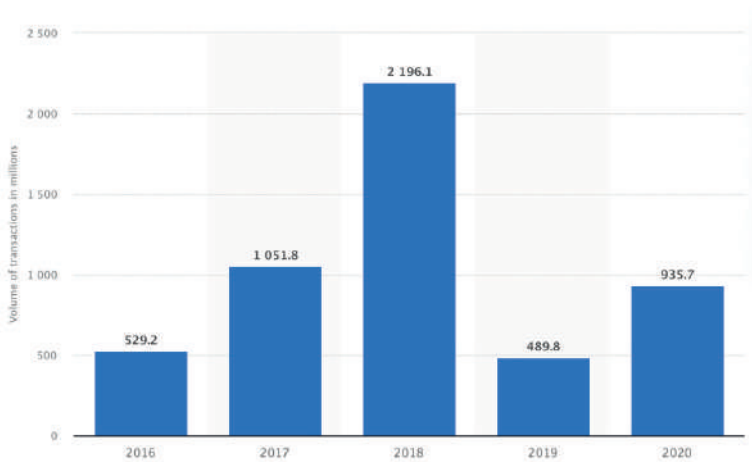


Figure 3.3.: Volume of Mobile Banking Transactions in Malaysia 2016-2020

Source: Müller, Joschka (2021). The volume of mobile banking transactions in Malaysia from 2016 to 2020, Access Date: 05.09.2022. <https://www.statista.com/statistics/957504/mobile-banking-transactions-volume-malaysia/>

In terms of the adaptation of mobile banking, there should be lots of criteria that evaluate which variables could affect the customers' behaviours in Malaysia. One of the important variables affecting users' adoption of mobile banking services is a risk (Wa and Wang, 2005). Regarding these variables, Mohd et al., 2019, put forward predictors as Figure X:

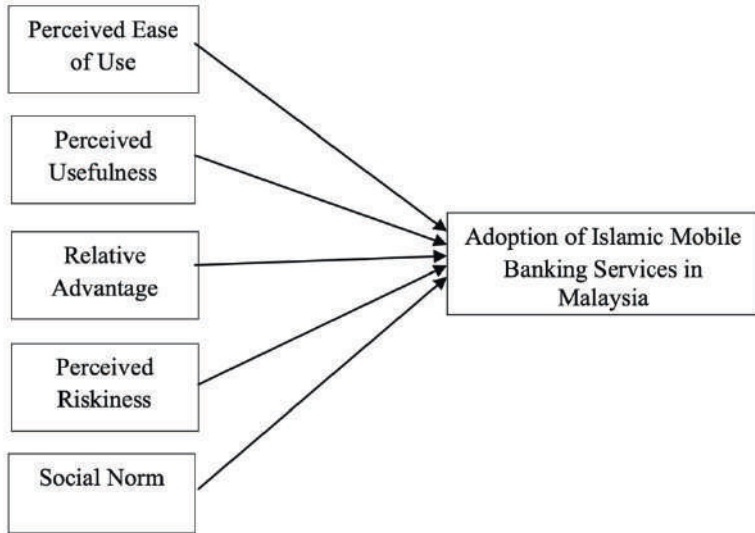


Figure 3.4.: The Potential Predictors of Adoption of Islamic Mobile Banking Services in Malaysia

Source: Mohd Thas Thaker, M.A., Allah Pitchay, A.B., Mohd Thas Thaker, H., & Amin, M.F. (2019). Factors influencing consumers' adoption of Islamic mobile banking services in Malaysia. Journal of Islamic Marketing.

Also, several past studies have shown that perceived usefulness is important and mainly focused on customers adopting mobile banking services (Venkatesh and Davis, 1996, 2000; Venkatesh and Morris, 2000). So, user experience like handling a problem on a banking platform or reaching advice for any issue would be useful for customers in terms of taking advantage of mobile banking applications.

Finally, internet usage has been increasing daily in the last decade, and mobile and online platforms have also taken their place in that area. For this reason, fintech operating in the banking sector and their own practices show that this trend is advancing exponentially in Malaysia. For Islamic banking to get its share of this trend, it should make the necessary adaptations and develop platforms that respond to users' requests and necessities.

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