

Islamic Finance In Malaysia

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4.1. WHICH ISLAMIC FINANCIAL INSTRUMENTS HAVE BEEN APPROVED IN MALAYSIA?

Malaysia is one of the biggest economies in Southeast Asia, ranked third in 2022 (IMF, 2022). In the scope of Islamic Banking, Malaysia takes the first place among Southeast Asia countries (S&P Global Ratings, 2022). The Southeast Asia economy holds 17 % of US\$290 billion of the total value of global Islamic banking assets, as shown in Figure 4.1. Hence, it is important to make clear which Islamic financial instruments are used in Malaysia to figure out the exact incomes of Malaysia Islamic Banks.

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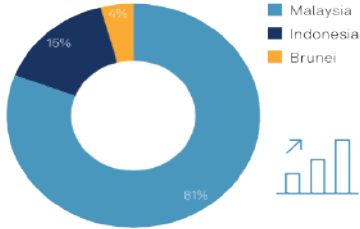
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Islamic Banking By The Numbers

Total value of global Islamic banking assets

US\$1.7 trillion →

... of which Southeast Asia holds

17% US\$290 billion**Breakdown of Southeast Asian Islamic banking assets**Malaysia and Indonesia account for **96%** of Southeast Asia's Islamic banking assetsWe forecast **8%** growth for Southeast Asian Islamic banking assets over the next three years

Source: Central bank data, S&P Global Ratings. We have excluded Iran from our statistics owing to the extreme volatility of the country's currency.

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Figure 4.1.: Islamic Banking by The Numbers (S&P Global Ratings, 2022)

Source: S&P Global Ratings. (2022, May 11). S&P Global Ratings. Retrieved June 20, 2022, <https://www.spglobal.com/ratings/en/research/articles/220511-growing-belief-in-southeast-asia-s-us-290-billion-islamic-banking-market-12373158>

Malaysia's first Islamic bank, established in 1983 by the Malaysian Pilgrims Fund Board (Tabung Haji), is Bank Islam Malaysia Berhad (BIMB). Subsequently, the banking system and its core values have grown to a large scale, inspiring Islamic banking systems worldwide.

We can classify the Islamic financial system in Malaysia into:

- Islamic banking structure,
- Non-bank Islamic financial agents,
- Islamic financial marketplaces.

It can also be found in these three ways to be characterized the structure of Islamic banking in Malaysia:

- Full-fledged Islamic financial associations.
- Conventional financial associations with Islamic windows,

- Conventional financial associations with Islamic windows and full-fledged Islamic banking branches. (Islamic Markets, 2022)

It is necessary to understand well between Islamic banking products and their compatibility with the Shariah to make a deal with Islamic banking basic rules. Furthermore, as the Islamic finance system has come to the present day, its products and services have become widespread (Table 4.1.).

Table 4.1.: Islamic Banking Instruments in Malaysia with their View of Shariah

Name of Product	Islamic Banking Products	The Concept of Shariah Used
Deposit	current account-i savings account-i commodity Murabahah-i	Wadiah Yad Dhamanah, Mudharabah, Qard Wadiah Yad Dhamanah, Mudharabah, Qard Murabahah/Tawarrug
Investment	general investment account-i special investment account-i	Mudharabah, Qard Mudharabah
Financing	asset financing-I asset-backed financing-i benevolent loan-i block discounting-i bridging finance-i bungalow lots financing-i	Tawarruq/Murabahah, Mudharabah Musharakah, Ijarah Ijarah Qard Bai" Dayn Istisna", Bai" Bithaman Ajil Bai" Bithaman Ajil
Financing	cash line facility-i club membership financing-i Commodity Murabahah Financing-i computer financing-I contract financing-i	Bai" Inah, Bai" Bithaman Ajil, Murabahah Bai" Bithaman Ajil Murabahah, Tawarruq Bai" Bithaman Ajil Murabahah, Bai" Bithaman Ajil, Istisna

	education financing-i equipment financing-i factoring facility-i fixed asset financing-I floor stocking financing-i hire purchase agency-i home/house financing-i	Murabahah, Bai" Bithaman Ajil, Bai" Inah Bai" Bithaman Ajil Bai" Dayn Bai" Bithaman Ajil Murabahah, Bai" Bithaman Ajil Wakalah Bai" Bithaman Ajil, Istisna"
	industrial hire purchase-i land financing-i leasing-i pawn broking-i	Variable Rate Bai" Bithaman Ajil Ijarah Bai" Bithaman Ajil Ijarah Rahnu (Qard and Wadiah Yad Dhamanah)
	personal financing-i plant & machinery financing-i project financing-i	Rahnu (Qard) Bai" Bithaman Ajil, Murabahah, Bai" Inah Bai" Bithaman Ajil, Istisna, Ijarah Bai" Bithaman Ajil, Istisna, Ijarah Musharakah, Mudharabah Tawarrug / Murabahah
	property financing-i	Bai" Bithaman Ajil, Istisna Variable Rate Bai" Bithaman Ajil
	revolving credit facility-i	Bai" Bithaman Ajil, Murabahah, Hiwalah, Bai" Inah
	share financing-i shop house financing-i	Bai" Bithaman Ajil, Bai" Inah Bai" Bithaman Ajil, Istisna"
	sundry financing-i syndicated financing-i term financing-I	Variable Rate Bai" Bithaman Ajil Bai" Bithaman Ajil Istisna", Bai" Bithaman Ajil, Ijarah Bai" Bithaman Ajil, Variable Rate Bai"

	tour financing-i umrah & visitation financing-i vehicle/automobile financing-i working capital financing-i	Bithaman Ajil Bai' Bithaman Ajil Bai Bithaman Ajil Ijarah, Bai" Bithaman Ajil, Murabahah Murabahah, Bai" Bithaman Ajil, Tawarrug / Murabahah, Musharakah. Mudharabah
Trade Finance	accepted bills-i bank guarantee-i bills of exchange-i export credit refinancing-i letter of credit-i shipping guarantee-i trust receipt-i	Murabahah, Bai" Dayn Kafalah Wakalah Murabahah, Bai" Dayn Wakalah, Murabahah, Ijarah, Bai" Bithaman Ajil Kafalah Wakalah, Murabahah
Card Service	charge card-i credit card-i debit card-i home/house financing-i	Qard Bai" Inah, Bai" Bithaman Ajil Ujr Bai" Bithaman Ajil, Istisna"s

Source: Elmabrok, Ali & Kim-Soon, Ng. (2016). Characteristics of GCC Islamic Banks Investment in Malaysia. European Journal of Scientific Research. Vol 140.

Islamic banking instruments used in most Malaysian banks are similar to conventional ones; however, some clear differences can be witnessed. For example, we can consider current and savings accounts under Wadiah Yad Dhamanah (guaranteed deposit), Mudharabah (profit sharing) and Qard (interest-free loan). Account holders are guaranteed full payment of the account amount and are not entitled to any profits from Islamic banks. In addition, interest-free products and services separated from conventional banks give hope to building new products on these basic services for the future.

Table 4.2.: Meaning of Shariah Views

The Concept of Shariah	Meaning
Wadiah Yad Dhamanah	savings with guarantee
Mudharabah	profit-sharing
Musyarakah	joint venture
Murabahah	cost plus
Bai"* Bithaman Ajil	deferred payment sale
Bai" Dayn	debt trading
Ijarah Thumma al-Bai"	purchasing
Ijarah	leasing and subsequently
Oardhul Hassan	purchasing
Bai" as-Salam	benevolent loan
Bai" al-Istijrar	future delivery
Kafalah	supply contract
Rahnu	guarantee
Wakalah	collateralized borrowing
Hiwalah	nominating another person to act
Sarf	remittance
Ujr	foreign exchange
Hibah	fee
	gift

Source: Elmabrok, Ali & Kim-Soon, Ng. (2016). Characteristics of GCC Islamic Banks Investment in Malaysia. European Journal of Scientific Research. Vol 140. 448-457.

In the case of investment accounts, money in a general investment account under Mudharabah (profit-sharing) and Qard (interest-free loan) is for an Islamic bank to invest in projects without command from investors; under Mudarabah conditions, investment rights can be given to the Islamic bank by transfer of authority or instruction, according to the customer's request. (Nakagawa, 2009).

The goals of Islamic finance are to ensure a balanced relationship between participants, an element of profit, and risk sharing sustaining financial transactions. There are many conventional project finance structures. The most significant

Islamic essential instruments for project finance are shortened as follows (Clews, 2016).

- **Murabaha:** It is a type of sale in Islamic law. A sale transaction with the addition of some profit on the purchase price or cost.

In Islamic finance, the contract of sale with Murabaha is one of the contracts based on trust. In such agreements, the buyer trusts the accuracy of the seller's declaration and establishes the contract on it. Therefore, the smallest false statement that may prevent the customer's consent or the failure to disclose a matter that needs to be disclosed prevents the formation of the contract.

- **Wakala:** Wakala means to trust and leave rights to someone, and it is to leave the action that one has the authority to do to another person, to substitute that person for himself. A person to whom any delegated is given or transferred by another person on his behalf.

- **Sukuk:** Sukuk is a financial bond issued to provide financing to the state and companies, offering the investor an interest-free fixed income. It is widely used in Asian and Gulf countries and is called Islamic financing-derived bonds prepared under Islamic law principles. Sukuk certificates aim to provide an interest-free fixed income for the investor. The investor who purchases a sukuk owns or has the right to benefit from an asset within the framework of the rates committed by the company or the government's sukuk certificate. Bonds are called debt-based certificates, while Sukuk is an asset-based certificate. The sukuk issuing company must share transparently with the public where it will transfer the cash flow it will provide.

- **Ijara:** Ijara is like the financial leasing activities of the banking system in the traditional sense, and it is the transfer of ownership to the buyer at the end of the leasing period over a symbolic value instead of direct sales.

Islamic bank, which carries out interest-free banking activities, leases equipment or a building to one of its customers for a fixed

amount and a specified period. Contrary to the profit-loss sharing principle, this type of contract has a predetermined and fixed return.

- **Istisna:** The contract allows the sale to be made while the goods are not yet in. Model sales transactions in housing projects are carried out with an exceptional agreement. Islamic investors appoint the borrower as their agent to procure the specific project assets to be financed Islamically.

4.2. WHERE DO MALAYSIA STAND IN THE ISLAMIC FINTECH LANDSCAPE?

The Islamic Fintech area is developing via technology, artificial intelligence, machine learning, big data and industry 4.0 at an unprecedented pace. The Islamic Fintech concept is defined as the realization of Islamic financial products, services and investments based on innovation and technology. That Fintech converted to Islam means performing the promised transactions without harming anything, displaying an ethical approach without cheating, offering a product portfolio without hidden costs, and offering Islamic financial products/services without interest component, gambling and religiously prohibited products.

Unlike global conventional Fintech companies, Islamic fintech companies are Shariah compliant and work for shareholders transparently. Hence, any financial technology company that produces applications or services under Islamic principles can be counted in Islamic Fintechs. However, it is important to understand how much this product development process is compatible with Islamic principles. In brief, both products and their development process should be shariah compliant to prove themselves on the Islamic Fintech ecosystem map.

Malaysia ranked number one on the Global Islamic Fintech (GIFT) Index as reported in 2021 (Salaam Gateway, 2021). According to this report, we can briefly find out that Malaysia is the most conducive country for Islamic Fintechs. Consistent with this index, the Islamic Fintech market and ecosystem applied 32 indicators in five categories, such as talent, regulation, infrastructure and capital, in 32 separate indicators.



Figure 4.2.: Top 20 Countries by GIFT Index Scores

Source: Salaam Gateway (2021), Global Islamic Fintech Report 2021, Retrieved June 24, 2022, <https://www.salaamgateway.com/specialcoverage/islamic-fintech-2021>

Sighted this potential, the Malaysian government seriously supports the Islamic Fintech market with its incentives. Individual initiatives, as well as regulatory firms, facilitate these initiatives to enter the Islamic FinTech market.

The Malaysian government has recognized the Islamic Fintech economy as Key Economic Growth Activities (KEGA). It aims to position the country as an Islamic Finance Hub 2.0 in its Shared Prosperity Vision 2030 (SPV 2030) (Fintech News Malaysia, 2021).

Despite all these positive rising, only 4% of the 233 Fintech companies belong to Islamic Fintech in Malaysia, as shown in Figure 3.



Figure 4.3.: Malaysia Fintech Map 2021

Source: Fintech News Malaysia (2022). *The Islamic Fintech Landscape in Malaysia, Where Do We Stand?. Retrieved June 24, 2022, from <https://fintechnews.my/29873/islamic-fintech/islamic-fintech-malaysia/>*

Considering the current number of Islamic Banks, Islamic banking windows, Shariah monitoring rules, Islamic financial assets, Muslim population, Sukuk, Islamic finance education, as well as laws and regulations, this shows how insufficient this number of Islamic Fintechs is in Malaysia. Malaysia has more support and encouragement for fintech development, including service to the Islamic finance sector than other Muslim countries. As long as it connects with technology, it will seize this opportunity.

In an increasingly digital world, the change in consumer behaviour and the gap in traditional banks' products and customer focus will be filled with Islamic Fintech initiatives. Due to their focus on a niche area, they have high growth rates by focusing on the changing needs and expectations of consumers, thanks to their flexible structure, with their seamless customer experience,

attractive designs, competitive pricing, and cost advantages, and providing services only via digital or mobile platforms.

The Malaysia Digital Economy Corporation (MDEC) has stated six dynamics as the drivers behind Malaysia's Islamic Fintech compass in Figure 4 (MDEC, 2020).



Figure 4.4.: Six Dynamics as The Drivers Behind Malaysia's Islamic FinTech Compass

Source: MDEC, 2020

Although there are many products in the fintech ecosystem, looking at which sub-categories of Islamic FinTech in Malaysia will give us evidence regarding the most used applications.

A growing subsector has since occurred in the fintech industry, namely the Islamic Fintech niche, which focuses on the use of technology to deliver Shariah-compliant financial solutions, products, services and investments (Salim and Abojeib, 2020).

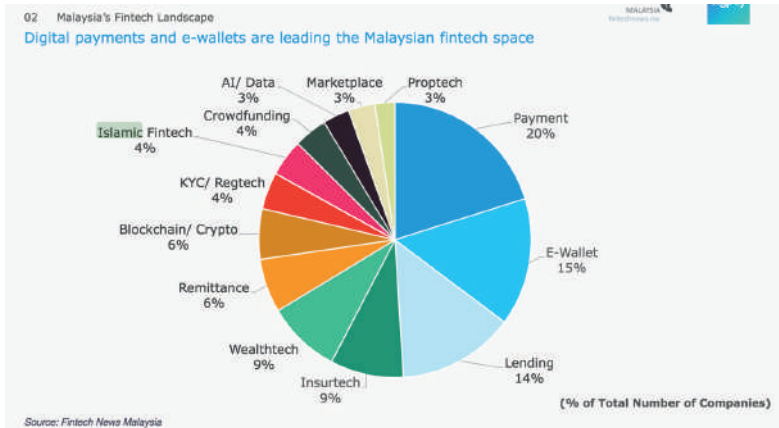


Figure 4.5.: Malaysia's Fintech Landscape

Source: Fintech News Malaysia (2022). The Islamic Fintech Landscape in Malaysia, Where Do We Stand?. Retrieved June 24, 2022, from <https://fintechnews.my/29873/islamic-fintech/islamic-fintech-malaysia/>

Thus, the most prominent Fintechs are payment systems and e-wallets. For this reason, the most prominent among Fintechs are payment systems and e-wallets, credit and insurance applications, and then insurance applications. This gives us hints that to keep faster growth will be achieved by focusing on which sub-sectors to increase the 4% share of Islamic Fintechs in Malaysia.

4.3. DESCRIBE THE HISTORICAL DEVELOPMENT OF SUKUK IN MALAYSIA AND ITS CONTRIBUTION TO THE ECONOMY

The concept of sukuk is derived from the single Arabic word *sakk*, which is defined as a document or investment certificate, and is widely used in the literature in the plural form (Zada et al., 2016:32). Investment certificates are also referred to as valuable papers showing the obligations of Muslims arising from their commercial activities in the Middle Ages (Bacha and Mirakhor, 2013: 172). There are many definitions for sukuk, which is considered an Islamic bond, the main one being made by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI). More than 100 standards have been published by the organization, which was formed with the participation of approximately 45 countries in Bahrain in 1991. The 17th of these standards is the Investment Certificate (Sukuk) Standard. According to the standard, the definition of sukuk is the following: *Investment Sukuks are certificates of equal value representing undivided shares in ownership of tangible assets, usufruct and services or (in the ownership of) the assets of particular projects or special investment activity, however, this is true after receipt of the value of the Sukuk, the closing of subscription and the employment of funds received for the purpose for which the Sukuk was issued.* (AAOIFI, 2015, p. 460). The Malaysian Shariah Advisory Council (SAC) defines Sukuk as follows: *Sukuk refers to certificates of equal value which evidence undivided ownership or investment in the assets using Shariah principles and concepts endorsed by the SAC.* (Suruhanjaya Sekuriti, 2014, p. 24). There are many types of Sukuk such as *ijarah*, *murabahah*, *salam*, *istisna'a*, *mudarabah*, *musharakah*, investment agency sukuk, *muzara'ah* (sharecropping), *musaqat* (irrigation), and *mugharasah* (agricultural). Apart from these, sukuk types are created by contemporary circumstances and defined by the name of different colors. Green sukuk and blue sukuk come first. Green sukuk refers to the sukuk used in the investment of projects to protect many natural resources, and also which will be developed

in an environmentally friendly manner, such as wind energy, biogas facilities, solar parks, low-carbon technologies, renewable infrastructure, electric vehicles, and rail systems (Alam et al., 2016; Abdul Aziz, 2017; Zain et al., 2017; PWC, 2016; Khazam, 2015). The blue sukuk, on the other hand, is more focused on financing the maritime economy (Rusydia and Irfany, 2021, p.102).

Although financial instruments similar to sukuk were used in ancient centuries, the concept of sukuk was first examined by the Fiqh Academy held in Jeddah, Saudi Arabia in 1988 and the foundations of the sukuk market were laid (Lahham and Watkins, p. 1). Based on these statements, the first sukuk of 125 million Malaysian Ringgit was issued by Shell MDS Sdn Bhd in Malaysia in 1990. After that, in 2001, the Central Bank of Bahrain issued the first corporate sukuk of 150 million Dollars and officially introduced sukuk into world life (Lahham and Watkins, p. 2.).

A brief outlook of the historical development of the sukuk in Malaysia is as follows.

- In 1990, the first sukuk issuance of 125 million Malaysian Ringgit was made by Shell MDS Sdn Bhd, a foreign company that is stated not to belong to Muslims.
- In 2001, a 150 million Dollars sukuk issuance was made by Kumpulan Guthrie Berhad through the Malaysian Islamic exchange. This is said to be the first sukuk issued by Muslims in Malaysia.
- In 2002, the Malaysian government made the first ijarah sukuk issuance of 600 million dollars.
- In 2005, the first profit-sharing Mudarabah sukuk issuance of 80 million Ringgit was realized by PG Municipal Assets Berhad.
- In 2005, the first musharakah sukuk issuance of 2.5 million Ringgit with profit and loss sharing was realized by Musyarakah One Capital Market.

Thus, instruments that set the first examples in the issuance of sukuk entered the financial market in Malaysia. Looking at the issuance of sukuk in the world, it is seen that there has been a serious increase in recent years. Despite the Covid-19 epidemic crisis that has affected the world, it is seen that the issuance of sukuk in the first quarter of 2021 increased by 21.20% compared to the previous year and reached 42.3 billion dollars. The shares of the countries in this sukuk issuance are as follows.

2021 Q1 Sukuk Issuance Volumes (Percentage)

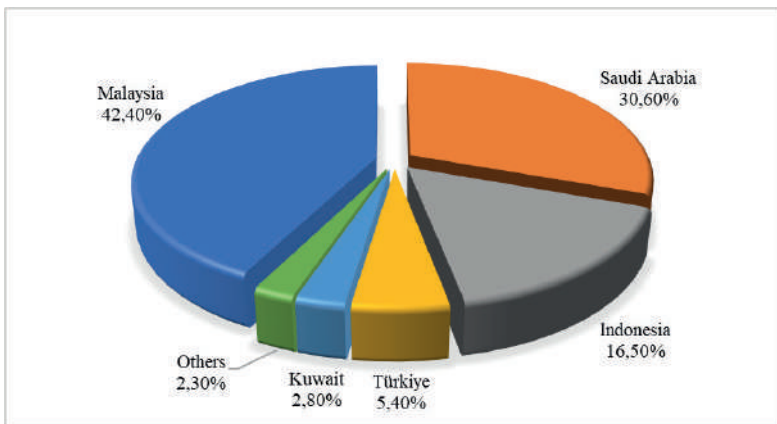


Figure 4.6.: 2021 Q1 Sukuk Issuance Volumes (Percentage)

Source: Islamic Financial Services Board (IFSB) (December 2021), Assessing the Effectiveness of Covid-19 Policy Responses in the Islamic Capital Market, IFSB Publications, p. 6.

It is understood from the graph that Malaysia has the majority (42.40%) of the world's sukuk market in the first quarter of 2021, approximately 18 billion dollars. Malaysia is followed by Saudi Arabia (30.60%, 13 billion dollars), Indonesia (16.50%, 5.7 billion dollars), Türkiye (5.40%, 2.2 billion dollars), and Kuwait (2.80%, 1.2 billion dollars). Furthermore, it is stated that approximately 250 billion dollars of sukuk issuance have been realized as of the end of 2021 (thenationalnews.com). Malaysia's sectoral sukuk issuance, which ranks first in the world, is as follows.

Table 4.3.: Total Sukuk Issuance by Malaysia on a Sectoral Basis (Billion Ringgit (RM))

<i>Years</i>	<i>Agriculture, Forestry and Fisheries</i>	<i>Construction Sector</i>	<i>Electricity, Gas and Water</i>	<i>Finance, Insurance, Real Estate and Business Services</i>	<i>Government and Other Services</i>	<i>Production</i>	<i>Mining & Quarrying</i>	<i>Transport, Storage and Communication</i>	<i>Wholesale, Retail Trade, Hotels & Restaurants</i>	<i>Sum</i>
2000	43	2.388	4.564	7.245	922	1.409		3.374	2.046	21.992
2001	657	1.865	10.068	12.583	914	2.005		3.160	250	31.502
2002	972	2.874	1.209	7.613	3.494	928		8.439	1.131	26.660
2003	583	2.230	1.971	21.732	1.304	6.209	80	9.429	130	43.668
2004		3.229	7.334	11.774		3.187		1.332	1.194	28.050
2005	732	4.007	5.791	14.726	1.127	3.102	100	2.709	3.362	35.656
2006	519	2.661	4.764	15.583	4.546	796		2.688	181	31.737
2007	1.060	2.989	4.216	36.715	2.000	1.209		19.355	62	67.606
2008	50	2.888	4.811	31.052	4.786	1.225		4.666	179	49.658
2009	270	1.615	3.840	40.048	6.869	999		4.928	5	58.575
2010	265	8.523	620	34.220	1.101	698		6.303	398	52.128
2011	465	3.502	20.855	33.371	5.360	1.660		3.895	452	69.561
2012	2.845	4.698	12.029	75.393	12.823	2.197		10.890	250	121.123
2013	1.279	7.629	10.927	48.389	5.581	1.378	0	8.573	109	83.865
2014	465	13.366	5.333	50.391	11.094	2.144	12	2.229	467	85.502
2015	1.265	4.181	13.660	55.606	6.359	1.515	0	2.850	204	85.639
2016	1.248	7.414	10.820	46.323	10.984	1.523	0	6.835	150	85.298
2017	151	12.169	14.362	76.340	11.408	1.180	0	5.005	1.389	122.004
2018	89	5.949	13.608	73.821	4.347	1.820	0	2.905	411	102.950
2019	2.055	4.268	7.584	101.275	7.215	2.230	0	2.566	1.732	128.924
2020	20	8.759	10.870	71.000	6.048	1.747	500	3.085	2.052	104.080
2021	2.221	7.063	19.646	71.932	6.316	1.887	0	2.480	869	112.412

Source: Suruhanjaya Sekuriti, Bonds & Sukuk Market, Access Date: 02.06.2022, <https://www.sc.com.my/analytics/bonds-sukuk-market>

It is understood from the table that the sukuk issuance has occurred in several sectors. The sector experiencing the highest volume of sukuk issuance is the Finance, Insurance, Real Estate and

Business Services Sector. It is seen that there has been an increase in the issuance of sukuk over the years, and the most issuance of sukuk was realized in 2019. The issuance of sukuk has increased sixfold compared to the first years. When the total sukuk issuance in Malaysia is analysed on a monthly basis, the following figure is seen.

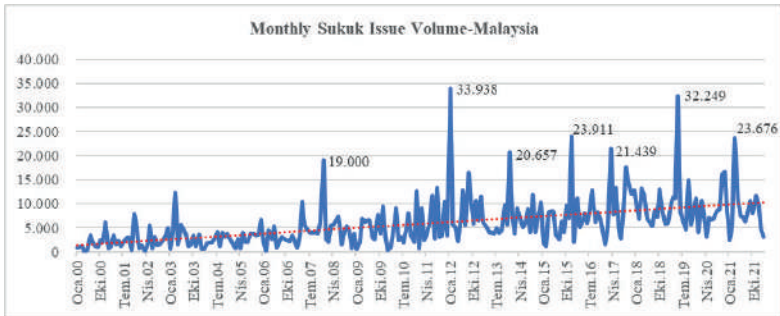


Figure 4.7.: Monthly Sukuk Issue Volume-Malaysia

Source: Suruhanjaya Sekuriti, Bonds & Sukuk Market, Access Date: 02.06.2022, <https://www.sc.com.my/analytics/bonds-sukuk-market>

When looked at the Malaysia's sukuk issuance volume, it is seen that it has increased continuously over the last twenty years. It is understood that it had a serious peak in some years; moreover, it had a successful course during the covid period. It is observed that the year in which the most sukuk issuance took place was January 2019.

4.4. COULD YOU PLEASE PROVIDE DETAILS ABOUT TAKAFUL INSURANCE IN MALAYSIA?

There is an emphasis on mutual aid and solidarity in the definitions in the literature for takaful insurance. It is mentioned that the participants guarantee each other assistance in return for the premiums paid through donations.

Takaful (Islamic insurance) is a concept in which a group of participants mutually guarantee each other against loss and damage. Each participant fulfils the obligation to donate a certain amount as a contribution aid (or donation) to the fund managed by a third-party organization, the takaful operator (Bank Negara Malaysia, 2013).

Malaysia's central bank, Bank Negara Malaysia (BNM), is the institution that oversees all insurance and takaful institutions in the country. Insurers and takaful businesses that want to operate in the country must receive a letter of recommendation from BNM and go to the Ministry of Finance.

The Takaful Act was enacted in 1984, while Syarikat Takaful Malaysia Bhd was established in November 1984. It is known as the first Islamic insurance company.

Takaful and conventional insurances have the same purposes, although their basis in the works and transactions are different since Takaful is based on Islamic trade rules. By this way, it differs from conventional insurance.

Table 2 shows many differences between Takaful insurance and conventional insurance as shown.

Table 4.4.: Comparison Between Takaful and Conventional Insurances

1. Similarities		
1.	Both modes of insurances need payment from the insured to the insurer; in conventional it is called premium and under takaful it is called contributions in the form of donation (tabarru')	
2.	The amount insured is payable to the insurer when certain events occur	
3.	Both insurance policies have a significant investment or savings elements built into them	
2. Dissimilarities		
Concepts	Conventional Insurance	Takaful
Elements	<ul style="list-style-type: none"> Operates under secular law No requirement on spiritual sincerity and the concept of 'hereafter' is ignored 	<ul style="list-style-type: none"> Compliant with the Shariah Elements of spiritual sincerity are essential aspect of the insurance contract, i.e. to achieve the pleasure of Allah and the concept of 'hereafter' is emphasized
Risks	<ul style="list-style-type: none"> Transferred to one party Borne by one entity (an individual or organization) - the Insured 	<ul style="list-style-type: none"> Sharing-risks between the group itself The takaful participants agreed to assist those among them who incur any loss and share the remainder if any
Modus operandi	<ul style="list-style-type: none"> Based solely on commercial factors 	<ul style="list-style-type: none"> Based on mutual cooperation Based on mutual assistance and protection
Business operations/ activities	<ul style="list-style-type: none"> Investments and other activities are not restricted as long as they comply with the relevant laws 	<ul style="list-style-type: none"> Free from the Shariah prohibitory elements (riba, gharar and maysir)
Payment of subscription	<ul style="list-style-type: none"> Premium payment which creates an obligation against the Insurer on a sale & purchase contract 	<ul style="list-style-type: none"> Contributions payment in the form of donations through donation contract (tabarru')
Advisory board	<ul style="list-style-type: none"> No requirement for compliance with the Shariah 	<ul style="list-style-type: none"> A Shariah Advisory Board ensures compliance with the Shariah (Takaful Act 1984)

Source: Puteri Nur Farah Naadia Mohd Fauzi, Khairuddin Abd Rashid, Azila Ahmad Sharkawi, Sharina Fariyah Hasan, Srazali Aripin, Muhammad Ariffuddin Arifin (2016), "Takaful: A review on performance, issues and challenges in Malaysia", *Journal of Scientific Research and Development* 3 (4): p. 72.

While the funds obtained in Takaful insurance are invested in Islamic products, investments can be made in all kinds of investment instruments in conventional insurance. In addition, in Takaful insurance, the fund belongs to the participants, while in conventional insurance, the fund belongs to the company.

IFSB, the AAOIFI, and IIFM have made important improvements in developing standards in governance, financial reporting, Shari'a, and capital markets. They have equally struggled to advance the wide support of regulators to impose the implementation of takaful insurance standards and leading best practices. Basically, consultants, as well as regulators, need to study together to ensure these well-written and well-presented standards find their way in a real, practical sense. Thus, the location of the new Takaful model and solutions has to address several inspirations and enablers, as addressed in Figure 6.



Figure 4.8.: Positioning of New Takaful solutions: Core Influences and Enablers

Source: Deloitte (2020), The global Takaful insurance market, Retrieved June 28, 2022, https://www2.deloitte.com/content/dam/Deloitte/xs/Documents/financialservices/me_fsi_insurance_takaful_0613.pdf

Hence, the models and new products to be developed on takaful insurance have prerequisites that must be considered in many respects.

Takaful insurance has located itself to capitalise on the new up-and-coming opportunities. Takaful companies need to superior position themselves to classify key growth drivers and capitalise on the emerging growth chances in an increasingly reasonable global takaful landscape, involving considering: strategies to transform such market potential to real growth; new business models; important issues in adaptable takaful providers; and exploring the latest innovations in the next generation of takaful products considering changing consumer expectations. Lastly, the potential of takaful is beyond question. The market share here has increased through the entry into the takaful market of major banks worldwide, but the takaful insurance sector is growing rapidly. (Anand, 2014).

4.5. WHAT IS THE STATUS OF ISLAMIC FINANCE AND BANKING EDUCATION IN MALAYSIA?

Islamic finance and banking education in Malaysia began with the establishment of the first Islamic Banks by the government in 1983. Studies have been carried out in this field since then in order to train more qualified employees. The International Islamic University was first established under the leadership of the then Prime Minister Tun Dr. Mahathir Mohamad. Thus, the foundations of Islamic Finance and Banking were laid. In 2005, INCEIF was established by Bank Negara to train talented and expert staff for the Islamic financial services industry. Carrying out its duties as a university, INCIEF offers postgraduate education to students from more than 70 countries and research opportunities for international academics (<https://inccif.org/profile-vision-mission/>). Subsequently, on 1 November 2007, the Malaysian Qualifications Authority (MQA) was established with the enactment of the Malaysian Qualifications Authority Act. The establishment purpose of MQA is to provide quality assurance for higher education institutions by setting standards and criteria at the national level. MQA strives to contribute in the following areas: National competitiveness, addressing globalization, the centre of higher education excellence, centre for quality assurance, regional networking, knowledge society and human capital development.

According to the study titled “MIFER Atlas 2021 and Beyond”, published in 2021 by ICIFE (International Council of Islamic Finance Educators), the International Islamic Finance Education Council, there are currently 217 associate degree, undergraduate, graduate, and doctoral programs in Malaysia related to Islamic Finance and Banking. These programs are offered by 12 public universities (PUs), 40 private higher education institutions (PrHEI) and ten public higher education institutions (PuHEI). The distribution of these programs is given below. (ICIFE, 2021, p.3.)

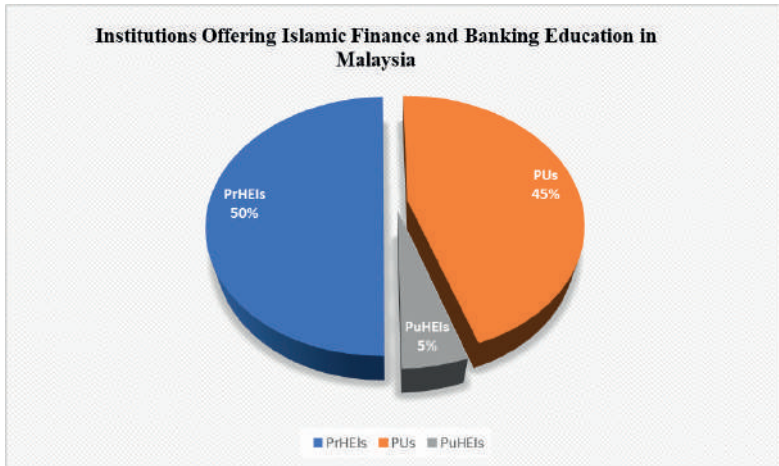


Figure 4.9.: Institutions Offering Islamic Finance and Banking Education in Malaysia

Source: ICIFE, MIFER Atlas 2021 and beyond, (Ahmad, Nor Hayati. Thoughts on Islamic Finance Education 2021 and Beyond) ICIFE Publisher, 2021, p. 24.

Private higher education institutions provide 50% (109 units) of the total education given, while 45% (97 units) are provided by public universities, and 5% (11 units) are delivered through private higher education institutions. State and private institutions give equal importance to this area. The fact that private universities value this field shows that their expectations from the field are high and the demand is intense. The top 10 universities in terms of program content are listed in the table below.

Table 4.5.: Top MIF Offering

	Public Universities (PUs)	Private Higher Education Institutions (PrHEIs)	Public Higher Education Institutions (PuHEIs)
1	IIUM	KUIM	PolySis
2	UITM	UniSHAMS	KPM Melaka
3	USIM	USAS	PolyJB
4	UUM	KUIS	PolyKuantan
5	UniSZA	IIC	PolyMlk
6	UM	KUIPSAS	PolyNilaj
7	INCEIF	MSU	PolySas
8	UKM	CyberM	PolySPrai
9	USM	Dar Hikmah	PolyTss
10	UMS	KIAS	PolyUO

Source: ICIFE, MIFER Atlas 2021 and beyond, (Ahmad, Nor Hayati. Thoughts on Islamic Finance Education 2021 and Beyond) ICIFE Publisher, 2021, p. 25.

In terms of the programs used in Islamic finance and banking education, it is seen that the most intensive activity is at the International Islamic University of Malaysia (IIUM). Islamic finance and banking activities, which started in 1983, are still continuing rapidly. The distribution of the training given by associate, undergraduate, graduate and doctoral programs is shown in the chart below.

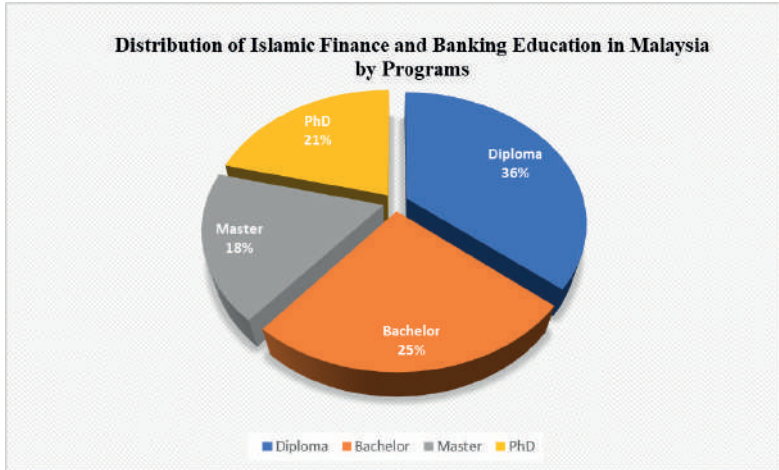


Figure 4.10.: Distribution of Islamic Finance and Banking Education in Malaysia by Programs

Source: ICIFE, MIFER Atlas 2021 and beyond, (Ahmad, Nor Hayati. Thoughts on Islamic Finance Education 2021 and Beyond) ICIFE Publisher, 2021, p. 24.

The majority of Islamic Finance and Banking education in Malaysia consists of an associate degree (36%) with 77 programs. This is followed by undergraduate (25%) with 55 programs, doctorate (21%) with 45 programs and master (18%) with 40 programs. The intensive doctorate programs contribute to the presence of experienced staff in the market.

Islamic Finance and Banking studies in Malaysia are grouped under six headings: Sharia and Law, Islamic Economics, Islamic Finance and Banking, Islamic Management and Marketing, Halal Food, and Islamic Accounting (ICIFE, 2021, p. 23).

- **Sharia and Law:** Under this heading, the provisions of Sharia based on the Qur'an, Sunnah, Ijma and qiyas are examined. The compliance of Islamic financial instruments with Sharia, the details of the contracts executed, and the fatwas

issued are reviewed. The standards established by international boards are evaluated.

- **Islamic Economy:** Islamic Economics refers to the micro and macro economy based on sharia. It looks at the economy built on conventional foundations from an Islamic perspective.
- **Islamic Finance and Banking:** The training given in this field mostly focuses on what Islamic financial instruments are used, how they are applied by banks, asset management, risk management and Islamic insurance (takaful).
- **Islamic Management and Marketing:** It is based on an Islamic perspective on management, organization and marketing in the field of business.
- **Halal Management:** Trainings are given on the operations and management carried out in the halal food sector. In halal management, products, services, systems and regulations are discussed first.
- **Islamic Accounting:** Islamic accounting refers to the theory and practice of accounting and auditing based on Sharia principles. It covers Islamic accounting standards and practices, zakat accounting and social responsibility accounting.

The content of the trainings given is indicated in the graph below.

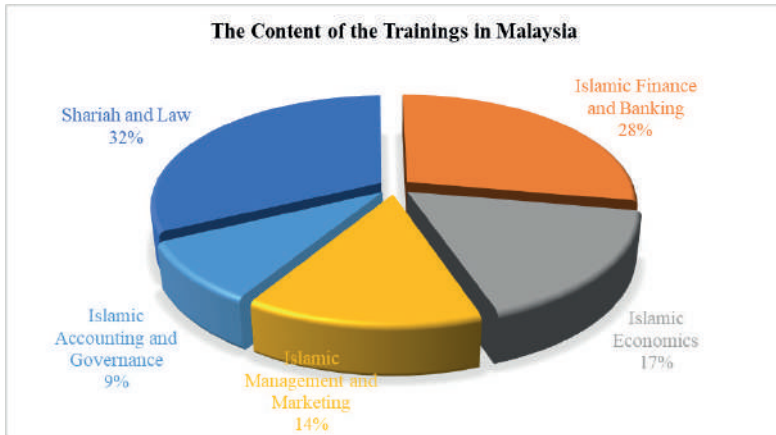


Figure 4.11.: The Content of the Trainings in Malaysia

Source: Haneef, M. A. (2018). Islamic finance education: Is there a misallocation of resources between curriculum and academic talent? Islamic Banking and Finance Review, 5, 58–67.

Looking at the above graph, approximately 32% of the contents of trainings consist of Shariah and Law, 28% Islamic Finance and Banking, 17% Islamic Economics, 14% Islamic Management and Marketing and 9% Islamic Accounting and Governance (Haneef, 2018, p. 62).

4.6. WHAT LEVEL IS THE CONTRIBUTION OF ISLAMIC FINANCE INSTRUMENTS USED IN MALAYSIA TO THE COUNTRY'S ECONOMY

Many financial instruments are discussed in Islamic finance. However, some of them are not used because the relevant authorities state that some of them are not suitable for use both nationally and internationally. Financial instruments used in Malaysia have been covered under heading 4.1. This section will specify the number of financial instruments used and their share in financial instruments. The value of the Islamic financial market in Malaysia is shown in Table 4.6.

Table 4.6.: Malaysian Islamic Finance Indicators (Billion Ringgit (RM))

Indicator	2013 Q4	2014 Q4	2015 Q4	2016 Q4	2017 Q4	2018 Q4	2019 Q4	2020 Q4	2021 Q4
Total Shari'ah-Compliant Financing (Excluding Interbank Financing)	280.476	333.646	387.351	431.593	476.038	559.266	606.729	656.682	709.404
Sukuk Holdings	62.438	74.392	69.013	72.482	86.599	109.254	128.603	146.143	165.296
Other Shari'ah-Compliant Securities	213	166	177	81	67	37	48	52	78
Interbank Financing	58.053	41.606	45.988	47.622	58.100	62.434	58.820	56.745	67.491
All Other Assets	18.368	19.214	23.800	20.996	21.913	24.588	23.887	11.661	15.127
Total Assets	419.549	469.024	526.329	572.774	642.717	755.578	818.086	871.281	957.395

Source: Islamic Financial Services Board (IFSB), Data by Country (Islamic Banking), Date Accessed: 10.06.2022, https://www.ifsb.org/psifi_03.php

When the data on Malaysian Islamic Finance Indicators are examined, it is seen that the value of the total Islamic finance market has reached approximately 1 trillion Ringgit and has increased

approximately 2.5 times in the last ten years. A large part of the Malaysian Islamic Finance market, 709 billion Ringgit (74%), consists of Sharia-compliant financial instruments- the major ones are ijarah, murabahah, istisna'a, mudarabah, musharakah, Al-Bai Bithaman Ajil.

It is seen that there has been a great development in the sukuk market, reaching 165 billion Ringgit in the fourth quarter of 2021. The percentiles of the variables in the fourth quarter of 2021 are shown in Figure 4.12. below.

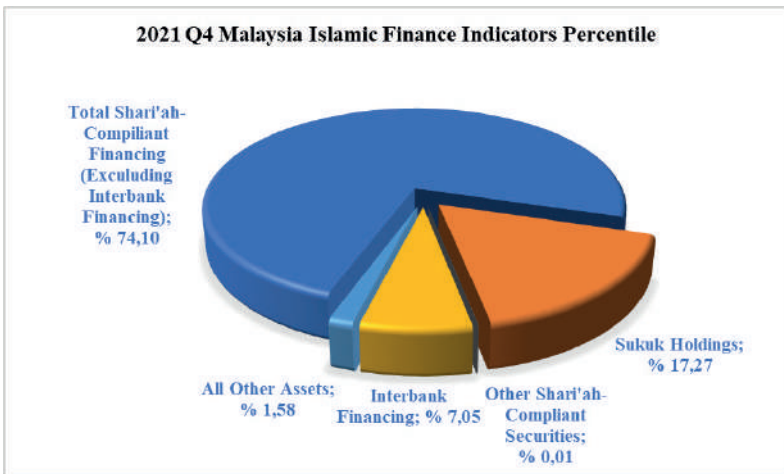


Figure 4.12.: Percentile of 2021 Q4 Malaysian Islamic Finance Indicators

Source: Islamic Financial Services Board (IFSB), Data by Country (Islamic Banking), Date Accessed: 10.06.2022, https://www.ifsb.org/psifi_03.php

As can be seen from the figure, 74% of Islamic finance activities in Malaysia are financial instruments that comply with sharia, 17% are the sukuk market, 7% are Interbank transactions, and 2% are other transactions. The distribution of sharia-compliant instruments, which constitute a large part of the Islamic finance market in Malaysia, is indicated in Table 4.7. below.

Table 4.7.: Total Shari'ah-Compliant Financing (Excluding Interbank Financing)

Total Shari'ah-Compliant Financing (Excluding Interbank Financing)									
Indicator	2013 Q4	2014 Q4	2015 Q4	2016 Q4	2017 Q4	2018 Q4	2019 Q4	2020 Q4	2021 Q4
Murabahah	56.924	83.999	118.028	158.551	186.796	219.427	252.507	286.378	319.402
Istisna'a	1.477	1.767	2.175	1.912	1.820	1.325	1.589	1.225	999
Ijarah/Ijarah Muntahia Bittamlik	68.863	76.914	80.882	79.048	80.674	82.399	80.398	84.049	88.370
Mudarabah	146	77	78	71	61	44	44	144	244
Musharakah	16.052	22.454	28.516	40.220	48.283	52.772	57.311	60.901	66.784
Al-Bai Bithaman Ajil	83.117	79.765	75.644	69.307	65.452	65.648	64.079	62.579	61.555
Others	53.898	68.670	82.028	82.485	92.952	137.652	150.802	161.406	172.050
Total Financing	280.476	333.646	387.351	431.593	476.038	559.266	606.729	656.682	709.404

Source: Islamic Financial Services Board (IFSB), Data by Country (Islamic Banking), Date Accessed: 10.06.2022, https://www.ifsb.org/psifi_03.php

When the Islamic financial instruments used in Malaysia are examined, the primary ones are murabahah, ijarah, musharakah, Al-Bai Bithaman Ajil, istisna'a, mudarabah and other financial instruments. It is observed that the use of Islamic financial instruments has tripled in the last nine years. The most widely used tool among the mentioned financial instruments is murabahah. The use of murabahah has reached 320 billion Ringgit from 57 billion, which means that it has increased six times in the last nine years. The share of financial instruments in the previous quarter of 2021 in the total is shown in Figure X.

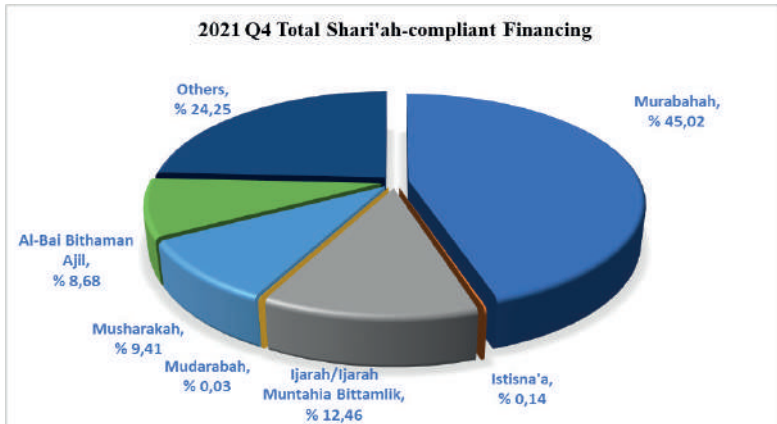


Figure 4.13.: 2021 Q4 Total Shari'ah-compliant Financing

Source: Islamic Financial Services Board (IFSB), Data by Country (Islamic Banking), Date Accessed: 10.06.2022, https://www.ifsb.org/psifi_03.php

When the rates of Islamic financial instruments used in Malaysia in the last quarter of 2021 are examined, it is seen that murabahah is in the first place as in the whole world. The utilization rate of the murabahah constitutes 45% of all Islamic financial instruments. This financial instrument is followed by ijarah with 12.46%, musharakah with 9.41% and Al-Bai Bithaman Ajil with 8.68%. To a very small extent, the istisna'a financial instrument is used.

Looking at the Islamic finance market in Malaysia in general, the market has reached 1 trillion Ringgit, of which 74% -709 billion Ringgit- consists of Islamic financial instruments. In comparison, 45% of Islamic financial instruments, 320 billion Ringgit, are murabahah. By analysing the results, it is understood that the most widely used murabahah financial instrument in Malaysia constitutes 32% of the total Islamic Finance market. It is thought that the main reason why the murabahah instrument, which is based on the shopping transaction and is clearly stated to be halal in the Qur'an, is very common is that besides being the most appropriate financial instrument for the Islamic religion, its return is high, and its risk is low.

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