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**EXPERIENCE OF BANK ISLAM MALAYSIA BERHAD:
A REVIEW FROM BUSINESS AND
SHARIAH PERSPECTIVE**

BY

ROSYLIN MOHD. YUSOF

ADVISOR

**DR. MUHAMMAD ANWAR
DEPARTMENT OF ECONOMICS**

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This is certify that Bro./Sis ROSMULIN MOHD. YUSOF
has written the Master of Economics research paper entitled:

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under my supervision. The relevant comments made on the paper during its presentation have been incorporated in the present version of the paper to my full satisfaction.

I have pleasure in recommending that the graduate committee may approve the paper in partial fulfilment of the requirements for the degree of Master of Economics.

Name of Supervisor: DR. MUHAMMAD ANWAR

Date : 9-12-92

M. Anwar

(Signature)

EXPERIENCE OF BANK ISLAM MALAYSIA BERHAD: A REVIEW FROM BUSINESS AND SHARIAH PERSPECTIVES

INTRODUCTION

The establishment of Bank Islam Malaysia Berhad (BIMB) in 1983 represents a preliminary step towards development of an Islamic financial system in Malaysia. It has been almost nine years since the bank started its operations. BIMB has been able to sustain its viability by competing with the other conventional banks in the country. In view of its existence in the capitalistic financial environment, together with the high expectations of the Muslims regarding the prospects of Islamic banking, it is of our interest to evaluate how BIMB has fared so far. The experience of BIMB has important implications for Muslims and the financial system in Malaysia. BIMB's experience has led to the realisation that Islamic financial system is much needed in Malaysia. Governor of Bank Negara Malaysia recently stated [1]:

"..... I have a dream and my dream is that I will be able to see in my lifetime, a fully fledged Islamic Financial System in Malaysia, functioning side by side with the conventional system. Bank Negara has already put into train the programme to achieve this objective, and perhaps, Malaysia will be the first country to have a dual system of banking and finance, one conventional and the other Islamic, both equally [2] sophisticated and modern "

[1]. Bank Islam Malaysia Berhad, "Shariah Basis and Framework and an Overview of the Modes of Operation of Islamic Banking", Seminar on Islamic Banking, held in Kuala Lumpur, September, 1992, p.18

[2]. Ideally, the Muslims would like to see the Islamic financial system dominates the conventional financial systems.

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An attempt is made here to evaluate the BIMB's experience from business and shariah perspectives during the eight years of its operations (1984 - 1991).

This paper is organized as follows: Section 1 contains literature review. Section 2 discusses the modes of financing provided by the BIMB. Section 3 evaluates the performance of BIMB, and the last section contains the recommendations and the conclusion.

I. LITERATURE REVIEW

The establishment of BIMB marked an important milestone in islamizing the financial system in the country. In Malaysia, Muslims view it as alternative to the existing interest-based financial institutions, and the non-Muslims regard it a healthy development towards making the banking industry more competitive. The Malaysian experience has proven, to this far, that this is a viable institution. Whether BIMB has really performed well in the banking industry, has been widely debated among professionals and scholars..

Islamic financial institutions are supposed to perform their usual financing functions as well as contribute towards the achievement of the major socio-economic goals of

1) economic well-being with full employment and optimum rate of

economic growth; 2) socio-economic justice with equitable distribution of income and wealth; 3) stability in the value of money to be a reliable unit of account, a just standard of deferred payments, and a stable store of value; 4) generation of adequate savings and their productive mobilization; and 5) effective rendering of the services normally expected from a financial institution [3].

The chief aim of Islamic banking is to provide an "Islamic" alternative to the conventional interest based banking. However, the substitution of conventional banking with Islamic banking should not be mere mechanical replacement of interest. Rather, Islamic financing should be geared towards the achievement of socio-economic objectives.

Zakariya Man evaluated the performance of the BIMB during 1984-1985, in terms of the growth of customers' deposits, total assets, liquidity requirements, other investments, staff requirement and bank's development. In this study [4], he found that the progress made during the period of analysis was encouraging and the experience was somewhat similar to the experiences of Islamic banks elsewhere.

[3]. See M.Umar Chapra, " Money and Banking in an Islamic economy", in Monetary and Fiscal Economics of Islam , edited by Mohammed Ariff, Jeddah, ICRIE, King Abdul Aziz University, 1982, p. 2 and

Ziauddin Ahmad, "Islamic Banking on the Crossroads", International Seminar on Islamic Economics, held in Kuala Lumpur, July 1987, pp.5-7.

[4]. Zakariya Man, "Islamic Banking : The Malaysian Experience", Islamic Banking in Southeast Asia, edited by M. Ariff, Singapore, Institute of Southeast Asian Studies, 1988. pp. 67 -99.

Certainly the BIMB has succeeded in achieving the conventional banking objectives such as profitability, liquidity and solvency. Nevertheless, the achievement should not be limited to the extent of business performance under interest free operations. A more comprehensive criteria shall also take into account the fulfillment of the socio-economic goals. This present study, therefore, attempts to evaluate the experience of BIMB in terms of business as well as socio-economic objectives.

The BIMB ranked 13th among the the twenty three locally incorporated commercial banks as at Dec 31, 1989. In terms of assets and profits, the bank also occupied the 13th position, while in terms of deposits, the BIMB ranked 10th [5].

Many studies have apperared on BIMB recently, in the wake of its debut on Kuala Lumpur Stock Exchange on January 17, 1992. Most writers reported satisfactory performance of the BIMB from from the business perspective. For instance, Azzah Mahidin evaluating BIMB's financial performance over a period five years (1986-1990) in terms of growth of assets, shareholders funds, profits, customers' deposit and financing concluded that the bank

[5]. Kuala Lumpur Bankers Directory 1990/1991, Arab Malaysian Merchant Bank Berhad, p. 4

has lived upto its corporate mission of " providing banking and financial facilities which are in compliance with shariah and at the same time attain viability and growth"[6] .

Muhammad Anwar [7] evaluated BIMB's viability within the interest bearing environment. The growth rates of BIMB's assets, deposits and financing provided during the period of (1985-1990) were analysed. He indicated that the increasing growth rates of deposits imply growing public demand for profit sharing contracts. He concluded that the financial needs of the 53 percent of the Muslim population in Malaysia are not adequately catered according to Islamic dictates as only a small share of the financial system constitutes Islamically organized institutions. Nevertheless, BIMB has proven its feasibility and superiority compared to the interest based financial institutions.

Notwithstanding BIMB's satisfactory performance, it has been criticised for:

1) its heavy reliance on the less risky modes of financing such as Murabahah, Bai Bithamin Ajil, and Ijarah. These techniques entail fixed profit margins and, to some scholars, these represent 'back door riba'; 2) the operations of BIMB are mostly geared towards profit maximization rather than focussing on the socio-economic goals such as eradication of poverty and equitable distribution of income.

[6].Azzah Mahidin, "Against The Odds", Malaysian Business, June 1- 15, 1991 , pp. 9-10 and Jan 16-31, 1992, pp. 73-74

[7]. Muhammad Anwar, " The Role Of Islamic Financial Institutions in the Socio economic Development in Malaysia ", Pakistan Economic Review, 1991 , pp 1131 - 1138

Referring to bank's heavy reliance on the less risky techniques, Dato' Dr. Abdul Halim, Managing Director of the BIMB argues that the concept of 'back door riba' is alien to Shariah. In Shariah, if a contract is permissible, it is permissible irrespective of the frequency and the extent of its application. Thus, it cannot be a doorway to riba [8]. Moreover, the operations of the BIMB are rightly geared towards profit maximization, argues Dato' Abdul Halim, as the operations of BIMB belongs to the commercial (Tijari) sector. To him, fulfilment of socio-economic objectives is the task of other institutions operating within the welfare (Ijtimai) sectors [9].

Despite this debate on the socio-economic role of the BIMB, its significance in Malaysian society cannot be denied. Tan Sri Jaafar Hussein, Governor of the Bank Negara, has declared that a 'fully fledged' Islamic financial system is very much desired. This declaration certainly justifies that a fresh and up to date evaluation of the BIMB from the business as well as the shariah view point.

In particular, proposal allowing the conventional banks to set up their own Islamic counters is under serious consideration [10]. In addition, the Governor stated that Malaysia is on its way to having a dual financial system.

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- [8]. Abdul Halim Ismail, " Shariah and Islamic Economics: Permissibility of Uses of Funds Contract ", International Seminar on Islamic Economics, held in Kuala Lumpur, July 1987, pp. 2-5
[9]. Abdul Halim Ismail, "Islamic Banking in Malaysia: Some Issues, Problems and Prospects " , Seminar on Issues In Islamic Economics, held in Kuala Lumpur, December 1985 .pp. 1-3
[10]. Malaysian Business, January 16-31, 1992, pp. 73-74