



# CELEBRATING 30 YEARS OF ISLAMIC BANKING AND FINANCIAL INSTITUTIONS IN MALAYSIA 1983-2013

EDITOR  
MUHAMMAD RIDHWAN AB. AZIZ



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**ISLAMIC BANKING AND FINANCIAL**  
**INSTITUTIONS IN MALAYSIA**  
1983-2013





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## **1983-2013**

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Penerbit USIM  
Universiti Sains Islam Malaysia  
Bandar Baru Nilai  
Negeri Sembilan  
2013

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## Foreword By The Chairman Of Permodalan Nasional Berhad

*Bismillahirrahmanirrahim*

*Assalamu'alaikum warahmatullah wabarakatuh*

The development of Islamic banking and financial institutions in Malaysia accelerated since the enactment of the Islamic Banking Act 1983. The Act led to the formation of the country's first Islamic bank, Bank Islam Malaysia Berhad. Later, with the liberalisation of the Islamic financial system, more Islamic financial institutions have been established. In retrospect, the history of Islamic financial institution in Malaysia dated back to 1969 when the Lembaga Urusan Tabung Haji (Tabung Haji) was established. It was the first institution incorporated by the Government to manage funds/savings in accordance with the *Shariah* principles for Muslims going for pilgrimage.

In 1978, the government incorporated the Permodalan Nasional Berhad (PNB) as one of the instruments to help rectify the economic imbalance in the Malaysian society through the operation of a unit trust fund. PNB operates along the lines of a commercially-driven entity, and now manages a number of unit trust products with units in circulation amounting to 169 billion units, invested by more than 11.6 million unitholders.

In the last 30 years, Malaysia's Islamic banking and finance has grown rapidly, supported by continuous product innovation, a diversity of financial institutions from across the world, a broad range of innovative Islamic investment instruments, a comprehensive financial infrastructure and adopting global regulatory and legal best practices. Malaysia has also placed a strong emphasis on human capital through the availability of Islamic finance talent. All of these value propositions have transformed Malaysia into one of the most developed Islamic banking and financial markets in the world.

Currently, Malaysia has a significant number of full-fledged Islamic banks including several foreign owned entities; conventional institutions which have established Islamic subsidiaries and a variety of Islamic financial institutions dealing in *takaful*, money market, funds management, capital market and others. This book published by the Faculty of Economics and Muamalat, Universiti Sains Islam Malaysia (USIM) to commemorate 30 years of the establishment of Islamic banking and financial institutions in Malaysia is an important reference work.

**Y. BHG. TUN AHMAD SARJI BIN ABDUL HAMID**

Chairman,

Permodalan Nasional Berhad

## Foreword By The Vice-Chancellor

*Assalamu'alaikum warahmatullahi wabarakatuh and Salam 1 Malaysia*

First and foremost, I wish to express my utmost gratitude to Allah SWT for bestowing upon us His Grace and Guidance to enable us to publish this book entitled *Celebrating 30 Years of Islamic Banking and Financial Institutions in Malaysia*. Thanks to Permodalan Nasional Berhad (PNB) for supporting us in the publication of this book as well as for the appointment of USIM as the organizer for the Professorial Chair in Islamic Finance and Banking.

I am pleased to thank all the authors in this book and wish that all their views written in this book will benefit all of us. The global Islamic banking and finance industry had undergone a major transformation in the journey to stay competitive and sustain profitability. In order to remain viable, a leading industry player had undertaken major initiatives namely by innovating and transforming new Islamic banking and finance products and services. Realizing the importance of development and progress on Islamic banking and financial institutions in Malaysia, the publication of this book gives opportunity for scholars and industry players to share their valuable insights which will be useful for future planning as well as guiding the Islamic banking and finance industry in facing the challenges and opportunities in the future.

In line with USIM's mission and vision, it is hoped that this book is able not only as a platform to contribute in enriching and integrating the knowledge, but also in finding new solutions pertaining to the future success of Islamic banking and financial institutions in this country. I would like to take this opportunity to express my deepest gratitude to the authors as well as members of Faculty of Economics and Muamalat (FEM), Universiti Sains Islam Malaysia (USIM) for the tremendous effort in making this book a success.

Thank you.

Best regards,

**PROFESSOR DATO' DR. ASMA ISMAIL**  
Vice-Chancellor

**Foreword By The Dean,  
Faculty of Economics and Muamalat**

*Assalamu'alaikum warahmatullahi wabarakatuh,*

**A**lhamdulillah, it is my great pleasure that the Faculty of Economics and Muamalat, USIM is able to successfully publish a book entitled *Celebrating 30 Years of Islamic Banking and Financial Institutions in Malaysia*. The publication of this book is one of our activities in conjunction with the sponsorship of Professorial Chair in Islamic Finance and Banking by Permodalan Nasional Berhad (PNB).

On behalf of the faculty, I would like to thank all the authors for sharing their views and thoughts pertaining to Islamic banking and financial institutions in this country through their writing in this book. I would also like to thank and congratulate the editor of this book for his full commitment and best effort in ensuring the success of the publication of this book.

This book is extremely important as one of the platforms in discussing matters on the current status of Islamic banking and financial institutions by experts, scholars and industry in enhancing further progress of these institutions for the benefits of all parties. Hence, this book is intended to highlight current research and development on issues, opportunities, challenges and success of Islamic banking and financial institutions in Malaysia in order to compete with the global market. I sincerely hope that this book will benefit readers in many ways.

Last but not least, I would like to extend a special thanks to Permodalan Nasional Berhad (PNB) for sponsoring the publication of this book. I wish all the great success in the future and hope that this book will benefit everyone who read it. *Insyallah*.

Yours sincerely,

**Y. BHG. DR ASMADDY HARIS**

Dean, Faculty of Economics and Muamalat

## Preface

Praise and glory be to Allah SWT, the Most Gracious and Most Merciful. Bless and prayer be upon His Messenger Prophet Muhammad SAW. On behalf of all authors, I consider this book as a small and humble contribution to the Muslim *ummah*. It is very true that this book was able to be published by the blessing of Allah SWT. Thus, I would like to express my thorough and sincere gratefulness to Allah Almighty, who has given us the opportunity to write and complete this book entitled *Celebrating 30 Years of Islamic Banking and Financial Institutions in Malaysia*.

I also wish to extend my appreciation to Y. Bhg. Profesor Dato' Dr Asma Ismail, Vice Chancellor, Universiti Sains Islam Malaysia for her encouragement and support in publishing this book. Special thanks to the Dean of Faculty of Economics and Muamalat, Dr Asmaddy Haris for his continuous support and help in planning and publishing this book in conjunction with the public lecture by Dr Zamir Iqbal, holder of Professorial Chair in Islamic Finance and Banking. A great deal of appreciation also goes to Permodalan Nasional Berhad (PNB) for funding the publication of this book through the Professorial Chair sponsorship.

A humble effort has been made through the publication of this book in order to explore the development, issues and challenges in the Islamic banking and financial institutions in Malaysia as the sole alternative for Muslim society in practicing permissible *muamalat* transactions in the banking and financial sectors. Although the Islamic banking and financial institutions have been introduced in 1983 in Malaysia, by the formation of Bank Islam Malaysia Berhad, but there is a very limited number of publications which explore the development and current success of these institutions in this country.

Islamic banking and finance is one of the components in Islamic financial sector that plays a very vital role to generate the growth of economic, besides Islamic money market, capital market and *takaful* especially for Malaysian economy. This book entitled *Celebrating 30 Years of Islamic Banking and Financial Institutions in Malaysia* gives a new dimension for Muslim and Non-Muslim in practicing Islamic banking and financial products provided by these institutions with peace and according to the approved *Shariah* rules. It is hoped that the Islamic banking and finance practitioners; and the whole industry will benefit from this publication.

Furthermore, this book tries to provide fundamental understanding and development on specific Islamic banking and financial institutions in Malaysia in order to highlight current and future issues, success and challenges to the industry. In this book, ten most important topics related to Islamic banking and financial institutions in Malaysia have been introduced to the reader. Hopefully, the publication of this book will provide a true picture of the Islamic banking and financial institutions in Malaysia, allowing its practical application by all. Lastly, May Allah SWT accept this humble effort, honor it with His pleasure and make it beneficial for the readers. *Jazakumuallahu Khairal Jaza'*.

**MUHAMMAD RIDHWAN BIN AB. AZIZ,**

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**Alaa Allabed**

INCEIF

## Acronym

- BBMB - Bank Bumiputra Malaysia Berhad
- BIMB - Bank Islam Malaysia Berhad
- CAGAMAS - Perbadanan Cagaran Nasional
- DFIs - Development Financial Institutions
- FRSs - Financial Reporting Standards
- GDP - Gross Domestic Product
- MGIT - Muassasah Gadaian Islam Terengganu
- IBD - Islamic Banking Department
- IDB - Islamic Development Bank
- IFIs - Islamic Financial Institutions
- IFRS - International Financial Reporting Standards
- IFSB - Islamic Financial Services Board
- IIMM - Islamic Interbank Money Market
- IMF - International Monetary Fund
- IPO - Initial Public Offering
- ITO - International Takaful Operator
- LCR - Liquidity Coverage Ratio
- LTH - Lembaga Tabung Haji
- MASB - Malaysian Accounting Standards Board
- MFRS - Malaysian Financial Reporting Standards
- MIA - Malaysian Institute of Accountants
- NSAC - National Shariah Advisory Council
- SAC - Shariah Advisory Council
- SPTF - *Skim Perbankan Tanpa Faedah*
- YPEIM - Yayasan Pembangunan Ekonomi Islam Malaysia



# History And Development Of Islamic Banking And Finance In Malaysia

Wan Marhaini Wan Ahmad

*University of Malaya & Bank Muamalat Malaysia Berhad*

## Introduction

Islamic banking and finance in Malaysia started as an industry that served as an alternative channel for Muslims to perform banking and financial transactions in accordance with *Shariah* or Islamic law. Since the introduction of the Islamic Banking Act in 1983, the industry has proven its viability and has become accepted widely by all Malaysians irrespective of their beliefs. In the last three decades, Malaysia has succeeded in developing a vibrant and modern Islamic banking and financial industry. The country could be proud of many innovations and achievements that bring about the success of the industry not only locally but globally as well.

## The Early Years

Prior to the 1960s, all of the financial institutions in Malaysia were based on interest system much influenced by the mainstream financial system in the western world. For those Muslims who adhered to *Shariah* would choose to keep their savings by themselves at home to avoid involvement with the prohibited interest or *riba*. Savings which are free from prohibitive elements became more important to Muslims when they decided to spend the savings for their sacred pilgrimages in Mecca, an expensive but looked forward event in their life time.

The lack of institutionalized savings among these Muslims had propelled the establishment of Lembaga Urusan dan Tabung Haji (Muslim Pilgrims Savings Corporation) in 1963. From the start, it was an institution that accepts deposits

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# CELEBRATING 30 YEARS OF ISLAMIC BANKING AND FINANCIAL INSTITUTIONS IN MALAYSIA 1983-2013

***Celebrating 30 Years of Islamic Banking and Financial Institutions in Malaysia*** provides current issues, success and challenges for Islamic banking and financial institutions in Malaysia. The book includes a range of topics such as history and development of Islamic banking and finance in Malaysia, Islamic banking and finance in Malaysia: strategy and current performance, accounting and reporting for Islamic banks in Malaysia: the way forward, Lembaga Tabung Haji and its development in Malaysia, the global financial crisis: lessons for Islamic finance, post-crisis regulatory environment and implications for Islamic financial services industry, issues in international financial reporting standard in *takaful*, the development and establishment of *ar-Rahnu* institutions in Malaysia, is *bay' al-Tawarruq* a better alternative? as well as service quality of Malaysian banking system: can one size fits all? This book is suitable for college and university students, academicians, practitioners and the general public who are interested in understanding the development and current success of Islamic banking and financial institutions in Malaysia.

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