

Islamic banks perform more competitive functions in Sabah

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According to Islamic Finance Development Indicator (IFDI), Islamic banking development in Malaysia has been superior compared with its neighbours in Southeast Asia. Malaysia was ranked first with Islamic banking assets of \$USD173,955 million, followed by Indonesia with a value of \$USD21,711 million and Brunei with a value of \$USD4,531 million. All figures were reported for the year 2014.

Unlike other countries in the region, Malaysia, Indonesia and Brunei have pondered Islamic banking as a national agenda and serves as one of the contributors to the national's GDP out of cogent financial infrastructures and competitive Islamic banking functions. This article aims to explain the latter. In particular, the functions explained are of importance to differentiate Islamic banks from their peers. As such, eight functions are explained from the context of Sabah but are not limited to the following:

Islamic deposit avenue provider – Islamic banks provide a potentially profitable and relatively low-risk outlet for the savings of their customers. Unlike conventional banks, the banks offer savings account, current account and fixed account using Shariah principle. In Kota Kinabalu, for instance, Bank Islam Malaysia Berhad (BIMB) offers tawarruq term deposit-i, which refers to a capital guaranteed deposit account that allows customers to manage fund in a flexible way for short or long-term needs. Such a product, however, is absent in its conventional peer.

Islamic financing provider - Islamic banks offer various credits for businesses and consumers to support both consumption and investment. In this respect, however, financing is made to assist these entities in financial hardship and not intends to fall them in acute debts. For instance, Bank Muamalat Malaysia Berhad (BMMB) provides istisna house financing to a customer who has a land to build his own house in which the bank offers the financial assistance. This facility is distinctive and maslahah-based to the bank.

Asset transformer – In fact, Islamic banks serve as an asset transformer (i.e. transforming deposits into financing/investment) to protect consumers and businesses against risk associated with direct finance deals. In 2015 alone, Islamic banks collected RM502,992.4 million of deposits from public and used the proceeds for financing with a value of RM495,004.6 million. To capture this role, the banks normally offer their customers a variety of financial products on both sides of the balance sheet such as mudarabah account and musharakah mutanaqisah home financing.

Liquidity injector - Islamic banks also serve as a liquidity injector by providing small businesses and individuals with working capital financing to meet their immediate and short term obligations. For instance, BMMB provides working capital financing-i for businesses using murabahah principle, which is offered to help entrepreneurs to purchase goods, stock, inventories and raw materials. Unlike its peer, this facility is exquisite to the bank to meet its both profit and social objectives.

E-payment provider - In 2015, internet banking payment transactions for interbank GIRO and debit were RM47.2 million and RM30.5 million, respectively. This exponential growth indicates that e-payment is gaining receptivity among customers like in the case of BIMB, which provides a comprehensive electronic banking facilities to its customers where internet banking is being the favourite e-payment platform among them. The bank's internet banking also allows customers to donate money to mosques, nongovernment organizations and orphanage homes.

Islamic wealth initiator - Islamic banks provide a practical means to customers in acquiring assets according to Shariah within a short period of time. The customers normally have limited financial resources to purchase house and car using cash term. The customers need to accumulate savings for a longer period to own the assets. The banks help to address this issue through various financing products. For instance, RHB Islamic offers equity home financing-i, allowing a customer to own a house at young age and gets full enjoyment from it while the bank earns profit in return.

Islamic investment avenue provider – Islamic banks offer opportunities for investment of surplus funds in various profitable as well as risk-controlled sectors of the economy. For instance, BIMB offers al-awfar investment account, where a customer serves as a rabbul mal while the bank serves as a mudarib. Some Sabahans opt the product owing to the fact that it offers attractive monetary rewards to investors, which is valued at more than RM6 million a year.

Policy supporter- Islamic banks also support Bank Negara Malaysia's (BNM) monetary policy. For instance, RHB Islamic reduced its Base Rate from 3.90 per cent p.a. to 3.80 per cent p.a. in July 2016 to tally with the objective of the pre-emptive action by the BNM to reduce the Overnight Policy Rate (OPR). The bank, indeed, provides a channel for government policy to achieve the goals of high employment, low inflation, economic growth and stability.

In all, Islamic banks somewhat have maintained and preserved these functions in an effective way, resulting better Islamic banking services delivery in the state. To remain competitive, however, Islamic banks need to learn new banking functions following structural shifts in communities, which of course will help to enhance their customer base and market share.

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