Challenges facing Islamic banking industry in Sabah, Sarawak

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AS OF 2015, total assets of Malaysia's Islamic banking industry amounted to RM685,391.9 million, with market penetration of 26.8 per cent. Yet, the rapid development of Islamic banking industry in Peninsular Malaysia has an impact on the development of the industry in Sabah and Sarawak, East Malaysia.

The population of Sabah and Sarawak was estimated at 3.5 million and 2.64 million respectively in 2015. Of the Sabah population, 65 per cent of them were Muslims. Astonishingly, this is contributed by the large number of West Malaysian civil servants who work in Sabah and the legal and illegal immigrants. In Sarawak, however, 30 percent of the state's population were Muslims. The growing Muslim populations in the states have a momentous impact on the demand of Islamic banking products.

Unlike KL and Selangor, Sabah and Sarawak are considered as growing and virgin markets for Islamic banking in Malaysia. Kuwait Finance House and Al-Rajhi Bank have tapped into these emerging markets by opening their branches in the said states to cater of their growing customer base.

The industry, however, is not immune from challenges. This article expounds four key challenges but are not limited to the following:

Firstly, there is limited opportunity for professional training among bankers for enhanced Islamic banking skills. In both states, however, there is limited institute offering training to bankers on the current development of Islamic banking system in Malaysia.

At present, only Universiti Malaysia Sabah (UMS) offers an Islamic Finance Programme at both undergraduate and postgraduate levels, covering all aspects of curriculum in Islamic banking and finance (IBF). One of the interesting courses is GE30603: Accounting System in Islam. Unlike UMS, Universiti Malaysia Sarawak (UNIMAS) offers Accountancy and Finance Programmes with limited focus on Islamic finance contents. Both UMS and UNIMAS, however, have experts to develop the IBF programme in the future including professional qualifications.

Secondly, there exists misconception pertinent to poor performance of graduate employability (GE) of graduates in Islamic banking in East Malaysia.

According to the Malaysia Education Blueprint 2015-2025, the GE measures the quality of teaching in terms of its effectiveness in preparing students for the workforce who meet the needs of the economy. In 2015, the GE for Islamic Finance Programme at UMS was 35 per cent below than the threshold value of 40 per cent. The result, however, is not that of serious as there is a tendency the GE increases within two years after the students' graduation.

Despite this misconception, the current statistic suggests that more than 150 prospective students throughout the country choose the programme in the first semester intake, 2016/2017, an increase of 32 per cent compared with the previous intake. Graduates are also accused to be trained to the limited scope of knowledge, suggesting limited career advancement although this is really unfounded.

This misconception, without a corrective measure, can undermine the development of young talents, resulting, somewhat, poor growth and innovation in the industry.

Thirdly, the industry also has witnessed an increased participation by non-Muslims both the industry and the education system.

For instance, Al-Rajhi Bank reported 52 non-Muslim customers in 2007 and the figure tends to be increasing. This is the positive aspect of banking with Islamic banks.

The worrying portion, however, lies in the growing number of nonMuslims who ask for employment in the sector not only in the Islamic banking industry but also in other related Islamic-based industries. It is subjectively argued that some Islamic-based organisations refuse to allow non-Muslim students to undergo industrial training at their organisations. Furthermore, there exists a competition between Muslim and non-Muslim graduates in securing job in the industry.

Hence, proper measures are needed to address this issue commendably to avoid discrimination and racism in the future as far as the number of non-Muslims taking the IBF at UMS is on the rise.

The fourth challenge is the unbanked adult population in both states.

According to Bank Negara Malaysia (2015), 33 per cent of adults living in the rural and remote location in Sabah and Sarawak are less likely to be banked. The geographical factors of unsymmetrical landform and virgin forest lead to unreachability of Islamic banking to rural folks. Some rural folks in the states travel up to 40 km or two/three hours and spend at least RM150 in travelling costs to visit the nearest bank branch.

Yet, poor accessibility and limited literacy on internet banking among rural folks undermine the visibility of Islamic banking. In general, the low financial commitment and the tranquillity of rural lifestyle lead to unnecessary use of the facility. At the national level, it was reported that the volume of internet banking was increased from 350.7 million to 452.0 million for 2014 and 2015, respectively.

In Sabah and Sarawak, however, this development is confined to urban areas but not the rural areas. Although "agent banking" appears to be alternative to internet banking for rural folks, only a few banks are willing to leverage on its potential. Malayan Banking Berhad, RHB Bank Berhad and Bank Simpanan Nasional are the frontrunners.

Overall, these four challenges have an impact on the development of the industry in Sabah and Sarawak. The challenges, of course, could be different in the states capturing the discrepancies of consumers' receptivity and Islamic banks' promotion packages.

Nevertheless, Sabah and Sarawak are of utmost importance to move in tandem to better leverage the Islamic banking industry, which in turn will improve their GDPs, investments and their people's employment.

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