





AL-MAQALAH

Islamic Banking: An Obligation or Option?

Rapid growth of Islamic Banking sector

Recently, both Islamic and non-Islamic countries intend to establish Islamic Banking in their countries. The existence



of Islamic Banking system growth rapidly nowadays, although in some banks, they only offer through the Islamic window.

Based on statistics provided by Bank Negara Malaysia (BNM), the growth of Islamic Banking industry in Malaysia is beyond the expectation. We can see that, in terms of financial performance,

the Islamic banking industry as a whole showed commendable results in 2005, with profitability and assets surpassing for the first time the RM 1 billion and RM 100 billion thresholds respectively and registering a strong growth of 17.7% and accounting for 11.3% of the total assets of the entire banking system.

The market shares of Islamic deposits and outstanding financing also increased to 11.7% and 12.1% of the industry's total respectively.

Meanwhile, total outstanding financing grew by 16.5%, attributed by the growth in new financing approved and disbursed of 55.1% and 19.4%

respectively, while net nonperforming financing ratio declined further to 4.8% at the end of the year. The Islamic banking sector remained well-capitalized with the risk-weighted capital ratio (RWCR) sustained above 12% throughout the year.



As at today more than 20 Islamic banks operated in Malaysia comprises of local and international Islamic bank. As reported, the total Islamic banking asset recorded up to RM342 billion or 19.3% from total bank assets in Malaysia as at 31 May 2012. It can be concluded that the Islamic banking system in Malaysia is growing from time to time. It also coordinated with the government's aspiration to make Malaysia a hub for Islamic banking and finance in the world. **Misconceptions surrounding Islamic banking:**

Question: Are usury and profit one and the same?

Answer: No.

- Riba: A concept in Islamic banking that refers to charged interest. It is forbidden under Shariah, Islamic religious law, because it is thought to be exploitive
- Profit: A financial benefit that is realized when the amount of revenue gained from a business activity exceeds the expenses, costs and taxes needed to sustain the activity. Any profit that is gained goes to the business's owners, who may or may not decide to spend it
- 2 **Question:** Are conventional Banking and Islamic Banking the same?

Answer: No.

- Islamic Banking is based on Shariah foundation. Thus, all dealing, transaction, business approach, product feature, investment focus, responsibility are derived from the Shariah law, which lead to the significant difference in many part of the operations with as of the conventional.
- Conventional banking is essentially based on the debtor-creditor relationship between the depositors and the bank on one hand, and between the borrowers and the bank on the other. Interest is considered to be the price of credit, reflecting the opportunity cost of

3 <u>Question</u>: Are Islamic banking transactions merely a ploy to conceal usury?

Answer: No. The trading transaction in Islamic banking is to gain profit for bank and also to be shared/ distributed to customers. It is not related to riba transaction.





Did you know how is importance to choose Islamic banking in our financial planning?

- Justice and Fairness: The main feature of the Islamic model is that it is based on a profit-sharing principle, whereby the risk is shared by the bank and the customer. This system of financial intermediation will contribute to a more equitable distribution of income and wealth.
- Liquidity: Follow the profit and loss-sharing principle to mobilise resources and are less likely to face any sudden run on deposits. As such, they have a minimum need for maintaining high liquidity.
- <u>Transparency</u>: Transparent to the account holders on the investments made in different areas and the profits realized from these investments. The profit is then shared in the preagreed ratio.
- <u>Ethical</u>and Moral Dimensions: Their strong ethical and moral dimensions of doing selecting business and business activities to be financed, play an important role in promoting socially desirable investments and better individual/corporate behavior.

بناه معاملات Bank Muamalat (17-10)

This article is prepared by Shariah Department of Bank Muamalat Malaysia Berhad Excellent performance of Islamic financial instruments is achieved due to the cooperation and support from all parties, including all banking institutions that offer Islamic products and services, Bank Negara, the central government, state governments and statutory bodies. They have been successfully held religious policies, as well as to complete systems for regulating and promoting the development of Islamic banking in the country. No wonder if foreign countries also recognize Malaysia as an Islamic State to be reckoned with. This is because the political stability and economic power to be a catalyst for a strong banking sector in the country.

Overall, this is a healthy development of the great civilizations of the Muslims. It gives the impression that by implementing the Islamic system (in this context is the Islamic banking system) that has been entrusted by Allah, where we are all as His vicegerent, then progress will be achieved and all activities must be in seeking Allah's bless or consent.

Islamic Banking: an option or obligation?

Many Muslims nowadays state that Islamic



Banking and Islamic Economic system is only as an alternative to them! In fact, it is not an obligation that must be implemented like five-time daily prayers.

The need for the existence of an Islamic banking system was characterized by a religious duty and follow that system is to be an obligation. This is a reality that must be embedded into the soul for those who are Muslims.

Dear readers! What is the real goal in our life?

We actually have born only to devotion to the one of Allah. Thus, the existence of the Islamic banking system is not an option, but it must be achieved and accomplished the concept of devotion. Just look at in the al-Quran in Surah az-Zaariyat, verse 56 means:

"And I have created Jinn and mankind except to devote himself to Me (Allah)."

As we mentioned earlier, we as a human being is the creation to complete for two and both are back to goal last dedication, first as a servant and second as His vicegerent. This is referred to in Surah al-An'am, verse 165 means:

"And He it is Who has made you vicegerent

in the earth and has raised one over the other in degrees among you that He may try you in what He has



given you. Undoubtedly, your Lord is not late in tormenting, and undoubtedly, He is necessarily Forgiving, Merciful."

Therefore, we should really understand that as His servant and His vicegerent:-

We have no choice except to obey and implement systems that have been gazetted by Allah to be practiced by human beings.

And it is not for those who believe, man or woman, when Allah and His messenger have decided an affair (they should not) have the right to choose their own resolution of their affair. And whoever disobeys Allah and His Messenger, he has strayed into clear error.

We must being confident and not just believe, that all commanded by the Creator contained full of benefits, advantages and wisdom, secular and religious. Allah has mentioned in Surah Ali-Imran: verse 58 means:

"This is what We recite to you (O Muhammad) of the Verses and the Wise Reminder (i.e. the Qur'an)."

All rules of Allah is intended to save humanity from slipping into systems as opposed to Shariah. Such as usury system is said to be the mother of sin to Allah. We should remember that in the Holy Quran only mentioned to sin of usury, Allah and His Prophet declared war to it.



