

CHAPTER 5

CONCLUSION AND RECOMMENDATIONS

5.1 INTRODUCTION

In the year 1999, the growth of Islamic banking was being monitored closely by Bank Negara Malaysia to make it more resilient and robust. The assets of Islamic banking grew from only RM2.4 billion in 1993 to RM29.9 billion as at end-May 1999. Deposits increased significantly from only RM2.3 billion in 1993 to RM22.9 billion while financing increased from only RM1 billion in 1993 to RM11.7 billion during the same period. The number of institutions participating in the SPI (Skim Perbankan Islam/ Islamic Banking Scheme) had also increased from only three players at launching stage to 54 players, comprising 24 commercial banks, 18 finance companies, 5 merchant banks, and 7 discount houses.

BIMB has been in operation since 1983 within a period of 17 years, the Malaysian society has accepted Islamic banking as an alternative to conventional banking. BIMB can successfully compete with other commercial banks in a multi-cultural and multi-racial society, which has been engrossed in conventional banking for a long time. This has been proven when BIMB could show an outstanding performance in the banking industry and could endure the economic crisis of 1997/1998. It remained profitable during the economic crisis whereby the profits in 1997 - RM47.35 million, 1998 - RM11.52 million, 1999 – RM47.95 million. Its total deposits have increased during the three year period, in 1997 – RM3,716.54 million, 1998 – RM3,718.79 million, 1999 – RM5,617.42 million.

5.2 LOAN AND FINANCING SCHEMES

In terms of its customers financing, BIMB has received impressive and increasing responses from the public whereby in 1997 – RM2,520.48 million, 1998 – RM2,946.44 million, 1999 – RM3,403.51 million. However if we focus on the

segregation of the customers financing, it seems that BIMB prefers to use *Al-Bai' Bithaman Ajil* (BBA) which is the concept of deferred installment sale/ added on profit which constitutes more than 60 percent of total customers financing. The concepts of profit and loss sharing (*Al-Mudharabah* and *Al-Musyarakah*) are less important practices in BIMB. Islamic banking should give more priority to the concepts of profit and loss sharing (*Al-Mudharabah* and *Al-Musyarakah*) as main alternatives to interest-based lending in conventional banking.

This segregation of customers financing is as follows:

Table 5.1 - Customers Financing in Percentage at BIMB

Concept	1999(%)	1998(%)
<i>Al-Bai' Bithaman Ajil</i>	65.7	68.9%
<i>Al-Ijarah</i>	3.9	4.2
<i>Al-Musyarakah</i>	0.6	0.4
<i>Al-Mudharabah</i>	0.5	0.6
<i>Al-Murabahah</i>	24.7	21.3
<i>Al-Qardh Al-Hasan</i>	2.9	2.9
Staff Financing	1.6	1.7

BBA scheme is an alternative for the Muslim society in Malaysia in order to avoid *riba* activities through loan schemes and the service is permissible and allowable.

Nonetheless there are queries concerning the profit rate under BBA which is very higher and burdensome. Furthermore, people say that the profit margin in BIMB and interest rate is the same, which also has elements of *riba*.

Based on the observation and research done, generally the profit percentage under BBA is higher if we see it in the short term. However, in the long term the changes in BLR will create uncertainty in the interest rate changes and it is

possible for the interest rate to be higher than the profit rate in BIMB. In addition, the deferred installment and compound interest may also be charged where inconsistent payments are concerned.

Apart from the above argument, there are people who are confused by the concept of loan in Islam. They perceive that BBA is similar to the *Al-Qardh Al-Hasan* loan. In fact, both concepts differ significantly. Loan in Islam is meant for fulfilling social responsibilities. The lender gives a loan to merely help others without any condition to pay an extra amount. Therefore the borrower is permitted to pay more to the lender based on his sincerity. Whereas BBA is a transaction which involves buying and selling. It is a form of investment and an accumulation of capital/wealth because it can be expanded. The profit through the buying and selling concept is *halal* provided it does not reach the limit of *ghibnu al-fahish* (excessive profit) in Islamic law. For fixed assets such as houses and cars, the profit should not be more than 20% of the market price of the fixed assets.

In addition, the profit rate is decided by BIMB after consulting the *Syariah* Supervisory Council. They will survey the current market prices in order to revise the profit rate and the selling price, which will not reach the limit of *ghibnu al-fahish* (excessive profit).

Another point has been used by BIMB as a reason to justify the higher profit in BIMB. It is analogized that the price of chicken that is slaughtered is more expensive because it is *halal*.

This reason is hardly acceptable because the existence of BIMB is to save people from the oppression of *riba*. If the profit margin is slightly higher or similar as interest rates, the objective is not achievable. BIMB must think of how to enhance its efficiency and to lower the cost of operation in order to charge lower profit margin than conventional banking. It will give a good picture of Islam and

the nation. By doing this, the Islamic banking system will be more competitive in the future.

In addition, the *slaughtered chicken* analogy is only relevant to the Muslim community. This is because BIMB only offers *halal* products and can only attract those who do not want to be involved in *riba*. However, this concept is not important to the non-Muslims who are not concerned whether a particular product is *halal* or not. Their main concerns are getting good services and maximum benefits.

Nonetheless, the society as a whole should be clear of the concept behind the existence of BIMB. BIMB is one of the many commercial banks in Malaysia. It is commercially based on gaining profits that are permitted by *Shari'ah*. However, many people think or assume that BIMB is similar to a welfare organization which is not profit oriented. Moreover, Islam is a way of life that constitute all aspects of human life including the banking system. The difference between conventional banking and Islamic banking is that Islamic banking gives more weight to societal interest than self interest.

5.3 RECOMMENDATIONS

1. As a new bank compared to the many commercial banks available in Malaysia, it is better if BIMB can give a thorough explanation about the concept that is in operation in the organization. This is to avoid any misconception spreading among the society about Islamic banking. More importantly, it is to avoid any confusion and misunderstanding about Islam in the society.
2. BIMB should conduct a research on why people are attracted to loan schemes under conventional banking. BIMB may have to revise its

existing profit margin in order to be more competitive by lowering its profit rate to attract more people to accept the services offered by BIMB.

3. To attract more people or customers to BIMB, BIMB must enhance its effectiveness in order to be more reliable and able to compete with other conventional banks which have SPI (Skim Perbankan Islam/ Islamic Banking Scheme) counters. Previously BIMB is a monopoly in offering Islamic products since it is the only Islamic bank available. But with the opening of SPI counters in conventional banks and the emergence of a second Islamic bank (Bank Muamalat Malaysia Berhad), BIMB has to face very high competition. Consolidation in the banking industry via merger will bring about a new challenge to BIMB. Larger and better capitalized entities will emerge from the exercise thus be in a better position to reach wider customer base and offer better services. As such, BIMB has to consider possible means to equip itself for competition.
4. BIMB should be involved directly in housing development projects since this product is very popular among the people. By having joint ventures with the government or other private companies, BIMB will have its own share in the project. Thus, the benefits of the project can be shared between the government, BIMB, private companies and the BIMB customers through the concept of *Al-Mudharabah*.

According to the above system, the cost of purchasing the houses can be reduced and it will give tremendous benefits to the customers. This is because customers can directly buy the houses from BIMB without having to go through a middleman.

5. The society has not fully gained from the Islamic banking system. People are still comparing the costs they have to incur under the two systems. Even though the Islamic banking system has almost all of the facilities as

under conventional banking but many of them still prefer conventional banking as they say the Islamic products are more expensive.

Efforts must be made to minimize costs and to give more efficient services for the Islamic banking system to be fully accepted by the society.