

## **10. Conclusion and Recommendations**

Notwithstanding the many problems discussed above, without doubt, the achievements of Islamic Banking in Malaysia are greater than its shortcomings. One of the evidences is that more and more conventional banks are now offering interest-free services to Muslim as well as non-Muslim customers in the country. However, a continuous study on Islamic banking system should be carried on as there are still many problems in Islamic banking and finance theory, concepts and applications.

Specifically, the bank still has some problems in the area of (a) Management, (b) Modes of financing and (c) Agency problems in the Al-Mudarabah financing. Fortunately, these problems are inter-related with each other. If we try to solve one of the problems, other problems will be solved easily.

### **(a) Management**

The above overall performance evaluation shows us that Bank Islam Malaysia has problems in its management. The most critical parts which we are concerned are inefficiency and incompetent in its management.

In comparison with other commercial banks like BBMB, inefficiency and incompetence in its management appeared in various aspects of its operations. Bank Islam has low level of return to its assets, by generating only 1% return on its asset, whereas Islamic banking industry's average is 1.70% (Bank Negara Annual Report 1994-96). Low return to deposits and financing reflects on how it efficiently utilises customers' deposits and finances projects profitably. Bank Islam's low turnover and low resource utilisation ratios indicate that it is inefficient and incompetent in its management.

As what Mr. Siaw Sat Lin, Treasury Manager of Caltex Oil which has been the bank's customer for ten years said, that the bank should be more competitive in terms of efficiency and competence (Phoon 1995). He said " what it may take a foreign-based bank two days to approve, say if you want fast money of RM20 million, Bank Islam will take several months to approve it."

Another weak point in management is that Bank Islam Malaysia has a low financing to deposits ratio in comparison with Islamic banking industry average and a typical commercial banking average (see Table 5 and 9). It receives funds from customers, but cannot utilise the funds in full or simply it cannot find profitable

projects/businesses to finance. This scenario reflects its management styles such as conservative, inefficient and incompetent to its surrounding environments.

(b). Modes of Financing

In the past 10 years, Al-Mudarabah financing was a low proportion of the total financing. The bank allocated over 90% of its total resources in Al-Bai Bithman Ajil, Al-Murabahah, Al-Ijarah financing. Al-Mudarabah financing is considered as the core concept of Islamic banking and finance by Muslim scholars and researchers, it is based on profit sharing and partnership, and without it, there is no such thing as Islamic banking and finance. However, Bank Islam has the lowest portion of Al-Mudarabah financing in the total financing. Hence, it has been questioned by scholars and researchers whether the bank is really Islamic in its operations. We understand that long-term financing involves higher risks and there is a lack of qualified personnel to undertake the operations. To overcome this problem, we would like to suggest that the bank should set up an Islamic Investment company or an Islamic Investment Consultant Company to identify, select, evaluate, implement, monitor and review individual project/business based on its economic and financial viability and propose it to the bank for funding, and in this way we can solve the

problem of agency in Al-Mudarabah financing and low portion of Al-Mudarabah financing in the total financing.

Bank Islam has been operating only thirteen years in the industry. In comparison with its shortcomings, its achievements are commendable and encouraging for those who wish to establish Islamic banking and finance system in their respect countries, although there are problems in its modes of financing. Since the primary objective of the bank is to abolish the element of *riba*, and provide Islamic banking and finance facilities to the Muslim customers, in this respect, the bank is considered successful in its operations in the past thirteen years.