ISLAMIC BANKING AND TAKAFUL:
THE DEVELOPMENT AND FUTURE CHALLENGES IN MALAYSIA

Jalaludin Bin Mohd Noor
Bachelor of Arts (Hons.)
University of Malaya
Kuala Lumpur
Malaysia
1984

&

Khairuddin Bin Hanafiah
Bachelor of Economic (Hons.)
National University of Malaysia
Bangi, Selangor
Malaysia
1986

Submitted to the Faculty of Business and Accountancy
University of Malaya, in partial fulfillment
of the requirements for the Degree of
Master of Business Administration

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ABSTRACT

The establishment of the Mit Ghamr Local Savings Bank of Egypt in 1963 marked a new milestone in the development of Islamic banking system. The interest-free banking concepts introduced by Mit Ghamr signalled to the Muslim community that Islamic principles were applicable to modern day banking business.

The government of Malaysia has been actively promoting Islamic banking with the view to have Islamic financial system operating side-by-side with the conventional interest-based system, Both are geared towards the nation's socio-economic development goals. The establishment of Bank Islam Malaysia Berhad in 1983 was the first step towards this vision. Ten years later, in March 1993, Bank Negara Malaysia gave approval to three conventional banks to start Islamic banking facilities. Several other financial institutions have since followed suit, and many have shown interest to do so. Indeed, Malaysia is the first country to have a dual system of banking and financing when the Islamic financial system was fully implemented.
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