Chapter 3

Overview of the Foreign Banks and their IBS Operations

3.1 Introduction

The participation of foreign banks in Malaysia in Islamic banking is a good example of how the local culture and market orientation direct and guide the business strategy of the banks. The large number of affluent Muslim population certainly had attracted these banks to tap their banking activities, to meet the demand of these customers. One of the vehicles to enter this market is through Islamic banking, which is a more preferable mode of banking for majority of Muslims.

To date, there are more than 40 financial institutions offering Islamic banking, majority of which are conventional banks and other financial institutions.[31] Although, some of the conventional banks, local and foreign, were initially modest in implementing Islamic Banking, but profitability and robust growth had encouraged them to stay on. In fact, most IBS participants are now planning ahead with expansion and meeting the targets set by BNM, as elaborated earlier.

Before delving further, it is important at this point to pay attention to foreign banks in Malaysia, and the roles they have played. Banks like HSBC, SCBMB and scores of others have had a long history since pre-independence Malaysia. SCBMB commenced its operations in Malaysia (Malaya) in 1875, while HSBC in 1884 and OCBC in 1932.[32] Not only their long presence is magnificent, also some of them were the government's banks for many years; they printed money for the government then. Thus, when Malaysia gained independence, foreign banks were controlling a

31 BNM (2002). *Annual Report 2001.*
32 BNM (1994). P. 142.

large share of deposit and loan volume. In fact, foreign banks still control more than 20% of deposits and lending/financing in commercial banking.[33]

3.2 Foreign banks in Malaysia

The establishment of foreign financial institutions in Malaysia is governed by the Banking and Financial Institutions Act 1989 (BAFIA). The introduction of BAFIA "marked a special milestone in legislation governing Malaysian financial institutions. (It) modernises and streamlines the laws relating to banking and other financial institutions to provide for an integrated supervisory regime for the financial system".[34]

With regards to foreign banks, the Act includes a provision requiring all branches of foreign banks operating in Malaysia to incorporate locally within a period of five years from the effective date of the Act, that is October 1, 1989. This provision, however, allows the banks to retain 100% ownership of the bank after incorporation, hence denied allegation that the policy is a backdoor means to nationalise the foreign banks. In essence, the local incorporation merely changes the legal form of the foreign banks' presence from that of a branch to a wholly owned subsidiary.[35]

Nonetheless, to foreign analysts, this policy is seen as a "dramatic decision to eliminate foreign banks simply by forcing them to incorporate locally".[36] However, this 'dramatic' decision is not at all detrimental to the country's financial systems. In fact, most of the foreign banks are staying on and enjoying the many privileges of banking in Malaysia. They are expanding, physically and financially.

33 Delhaise (1998). *Asia in Crisis.* Pg. 145-6.
34 BNM (1994). Pg. 51.
35 *Ibid.* pg. 143.
36 For instance, see Delhaise (1998).

This policy indeed contributed to the positive growth of Islamic banking. For locally incorporated foreign bank, it means that all decision and bank policies are made by local management, and most importantly under BNM supervision. This allows the foreign banks to embrace such policy as promoting Islamic banking in the country, hence their participation in SPI. Most of foreign banks currently operating in Malaysia are locally incorporated, enjoying the privilege of being treated on the same footing as the domestic banks, including a possibility of tapping and benefiting from the huge local Islamic financial market.

3.3 Background of each bank

In this part, we will look into the historical backgrounds of the banks under study. The areas where we are particularly interested are their incorporation, history in Malaysia, and their banking operations in general. This part is particularly important in demonstrating a strong relationship established between the banks and Malaysia, long before its independence. We will find, for instance, how HSBC and SCBMB were the government's banks in the past, especially during the colonial times. This paternal relationship is proven to be important today, as both the nation and the banks are maturing and becoming larger in most aspects. This, perhaps, is one of the most interesting features in the banking study of Malaysia.

3.3.1 HSBC[37]

HSBC Bank originates from China in the 1860s. At that time, the local financial market was in its infancy. In the absence of professional banks, the European trading houses or 'hongs', which made substantial profits trading in tea, opium and silk carried by the famous clipper ships handled most trading transactions.

[37] A large portion of this part is adapted from HSBC website: www.hsbc.com.my

To address the need of the local businessmen for larger and more sophisticated facilities, the bank opened for business in Hong Kong on 3 March 1865 and a month later in Shanghai, on 3 April 1865 as The Hong Kong and Shanghai Banking Corporation Limited. This is the beginning of modern HSBC. Soon after its formation in Hong Kong and Shanghai, the bank rapidly established a network of agents and branches around the world.

In 1884, The Hong Kong and Shanghai Banking Corporation Limited established its first office in Penang. By then, the bank was already banker to many Asian governments including Hong Kong and for the British government's accounts in China, Japan and Singapore. Being the first bank to be accorded the privilege to issue currency notes for the Malayan government, is testimony to the reputation enjoyed by the bank in the country.

The banking branch network grew as the economy grew with the new prosperity - the boom in tin and rubber industries as well as the financing of import-export. Offices sprung up in Malacca in 1909 and in Johor Bahru and Kuala Lumpur a year later. The Bank then wisely held back from further expansion for another 37 years, in order to consolidate its achievements.

The temporary halt ended in 1947 with a new branch opening in Kota Kinabalu. Branches in Sandakan and Tawau followed a year later with branches opening in Labuan in 1957, in Beaufort in 1961 and in Papar in 1962. By then, all the key banking territories of Malaysia were covered, and the bank had turned a crucial corner in its history.

Growth in Malaysia

The bank was closely involved in the financial and economic development of the Malaysian economy. After Malaysia's independence in 1957, the bank supported programmes that helped and promoted the young nation's progress and economic development. The acquisition of the reputable Mercantile Bank in 1959 gave HSBC its quantum leap into the current network of 36 branches in Malaysia. The Mercantile bank had set up the first commercial bank. This is a significant milestone in the development of the Malaysian economy as it symbolised the birth of a banking industry, which developed and eventually attained the sophistication comparable to those in the more advanced countries. All Mercantile branches were gradually integrated under the famous banner of Hong Kong Shanghai Banking Corporation. The integration of all the branches paved the way for a long-term streamlining of operations to provide even more comprehensive services to the bank's clients.

In 1994, Hong Kong Bank Malaysia Berhad, the HSBC Group's principal subsidiary here, became the first foreign-owned bank to be locally incorporated. This local incorporation exercise was completed 9 months ahead of the deadline set by BNM.

On 23 February 1999, the bank changed its legal name to HSBC Bank Malaysia Berhad to be in line with the initiative of the Group to create a unified brand, using HSBC and the company's hexagon symbol as its marketing name everywhere it operates.

3.3.2 OCBC

OCBC Bank (Malaysia) Berhad was locally incorporated on 13 April 1994 as a wholly owned subsidiary of the OCBC Bank Singapore, to replace its banking business in Malaysia[38]. Before that, OCBC was operating as branches of its parent bank long before independence. The parent bank itself, OCBC Bank Singapore, was

[38] As mentioned earlier, this incorporation is in line with BNM's directive on the matter.

founded in 1932 through the amalgamation of three banks namely, Chinese Commercial Bank, Ho Hong Bank and Oversea-Chinese Bank.[39]

OCBC opened for business on 2 January 1933. As the largest, strongest bank in the Straits Settlements, its issued capital was conservatively entered in the books as S$10 million, while deposits totalled more than S$22 million. There were a total of 17 branches located in Malaya, the Dutch East Indies, China, Hong Kong and Myanmar.

Through good management and progressive policies, OCBC has become one of Singapore's leading financial institutions. In August 2001, OCBC successfully acquired Keppel Capital Holdings Ltd which fully owns Keppel TatLee Bank Limited, Keppel Securities Pte Ltd and Keppel TatLee Finance Limited. The merged entity is now known as OCBC. This acquisition represents the next step forward in OCBC's mission to be a world-class financial institution in Asia Pacific and will enhance the Bank's ability to pursue expansion in its core markets in Singapore, Malaysia and Greater China.

OCBC has total assets of S$86 billion. For the financial year ended 31 December 2000, OCBC achieved a profit attributable to shareholders of S$840 million, representing a 16.4% increase over the previous year. The Bank has branches and representative offices in 14 countries, including Malaysia, China, Hong Kong SAR, Japan, Australia, UK and USA.

In Malaysia, OCBC had "its fair share of economic contribution to nation building too. This was evident ever since the early days of rubber plantation and tin mining whereby the Bank provided much needed financial assistance to various businesses and individuals in those area".[40] Today, OCBC is one of the largest foreign banks in Malaysia. Its loan size is more than RM14 billion, a capital base of RM1.7

[39] OCBC Bank (Malaysia) Berhad, *Annual Report 2000.*
[40] OCBC, *Annual Report 2000.*

billion and a total asset of more than RM20 billion.[41] In addition, OCBC has about 25 branches nationwide with staff strength of 2,000 employees[42].

3.3.3 SCBMB/Standard Chartered[43]

Standard Chartered is the world's leading emerging markets bank headquartered in London. Standard Chartered is named after two banks that merged in 1969. They were originally known as the Standard Bank of British South Africa and the Chartered Bank of India, Australia and China. Of the two banks, the Chartered Bank is the older having been founded in 1853. Nine years later, in 1862, the Standard Bank was founded in South Africa.

Both banks were keen to capitalise on the huge expansion of trade between Europe, Asia and Africa. The Chartered Bank opened its first branches in 1858 in Chennai, Mumbai and Shanghai. The following year the Chartered Bank opened a branch in Hong Kong and an agency was opened in Singapore. In 1861 the Singapore agency was upgraded to a branch that helped provide finance for the rapidly developing rubber and tin industries in Malaysia.

In 1862 the Chartered Bank was authorised to issue bank notes in Hong Kong. Subsequently it was also authorised to issue bank notes in Singapore, a privilege it continued to exercise up until the end of the 19th Century. Over the following decades both the Standard Bank and the Chartered Bank printed bank notes in various countries including China, South Africa, Zimbabwe, Malaysia and South Africa.

[41] This and other figures are taken from *Annual Report 2000* and OCBC web address: www.ocbc.com.my
[42] The Islamic Banking Division has only 14 staff with one Head. However, the Division has been continuously trained other staffs as well as customers on Islamic banking. In effect, majority of OCBC frontline staff are well trained on Islamic banking.
[43] SCBMB refers to Standard Chartered Malaysia, while Standard Chartered refers to the parent bank headquartered in London. Most contents of this part are adapted from the Standard Chartered website: www.standardchartered.com

Expansion in Asia

In Asia the Chartered Bank expanded by opening offices in various countries including Myanmar in 1862, Pakistan and Indonesia in 1863, the Philippines in 1872, Malaysia in 1875, Japan in 1880 and Thailand in 1894.

After the Second World War, many countries in Asia and Africa gained their independence. This led to local incorporation in some countries, particularly in Africa. Other operations such as those in Iraq, Angola, Myanmar and Libya were nationalised, while in Indonesia the Jakarta office was destroyed in an attempted *coup d'etat*. In 1948 the Chartered Bank opened in Bangladesh and during 1957 it acquired the Eastern Bank. The Eastern Bank gave the Chartered Bank a network of branches including Aden, Bahrain, Beirut, Cyprus, Lebanon, Qatar and the United Arab Emirates.

Despite these acquisitions and expansion into new countries such as Mexico, South Korea and Oman (1968), both the Standard and Chartered Bank networks were comparatively small. Both viewed the future with some trepidation as the need to protect themselves from acquisition became ever more apparent.

In 1969 the decision was made by the Standard Bank and the Chartered Bank to undergo a friendly merger thus forming Standard Chartered PLC. Standard Chartered decided, after the merger, to expand the Group outside its traditional markets. In Europe a number of offices were opened in countries including Austria, Belgium, Denmark, Ireland, Spain and Sweden as well as several major cities in the UK. Standard Chartered also opened offices in Argentina, Canada, Colombia, the Falkland Islands, Panama and Nepal. In the USA a number of offices were opened and three banks were acquired. These included the Union Bank of California which gave Standard Chartered a presence in Brazil and Venezuela. The opening of a branch in Istanbul in 1986 was overshadowed by a far more dramatic event when Lloyds

Bank of the UK made a hostile take-over bid for Standard Chartered. Standard Chartered won its right to remain independent but entered into a period of considerable change.

By the late 1980s Standard Chartered already had considerable exposure to third world debt[44]. To this was added provisions against loans to corporations and entrepreneurs who could not meet their commitments. Standard Chartered reviewed its operations and decided to focus on its core strengths of consumer banking, corporate & institutional banking and treasury in its well-established operations in Asia, Africa and the Middle East. This led to a series of divestments notably in Europe, the United States and Africa. During this time staff numbers were reduced; businesses not considered core were sold or closed; associate holdings disposed of; unprofitable branches closed and back office functions consolidated. In addition expensive buildings were sold with the proceeds reinvested in the business, and the senior management team was radically changed and strengthened.

Standard Chartered in the 1990s

Even within this period of apparent retrenchment, Standard Chartered expanded its network. It re-opened in Vietnam in 1990, Cambodia and Iran in 1992, Tanzania in 1993 and Myanmar in 1995. With the opening of branches in Macau and Taiwan in 1983 and 1985 plus a representative office in Laos (1996), Standard Chartered now has an office in every country in the Asia Pacific Region with the exception of North Korea. It was also during this period that the Standard Chartered operation in Malaysia was incorporated locally.

Today Standard Chartered is the world's leading emerging markets bank employing 30,000 people in over 500 offices in more than 50 countries primarily in

[44] This was the period known as Debt Crisis that struck the third world economies during the 1980s.

countries in the Asia Pacific Region, South Asia, the Middle East, Africa and the Americas.

The new millennium has brought with it two of the largest acquisitions in the history of the bank with the purchase of Grindlays Bank from the ANZ Group and the acquisition of the Chase Consumer Banking operations in Hong Kong in 2000. These acquisitions demonstrate Standard Chartered firm commitment to the emerging markets, where it has a strong and established presence.

3.4 Participation in Islamic Banking

3.4.1 Motive

The role of Bank Negara in encouraging as well as setting the tune for implementation of Islamic banking is exceptional. One of many reasons why foreign banks adopt Islamic banking is attributed to BNM's support and encouragement. This was largely true in the case of all banks under study.[45] It could be argued, though, that BNM's open arms policy is not the primary reason for adopting SPI, but still it is the progressive approach taken by BNM that attracted and persuaded many banks to join SPTF/SPI. Over the years, since 1993 when SPTF was launched, BNM has always been proactive in promoting and advocating the Islamic banking system. This is evident in BNM Annual Reports over this period.

Another related reason for adopting Islamic banking is business opportunity laid down by BNM's policies. Most foreign banks saw the introduction of SPTF in 1994 and later SPI as an opportunity to tap, initially, the hitherto underdeveloped Muslim market. As a predominantly Muslim country, a robust Malaysia promised a good opportunity since there are large portions of Muslims who prefer to bank in accordance to their belief. This hunch for profit is later proven to be very rewarding,

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[45] Based on interviews made.

not only that the Islamic banking sector grows faster than the banking industry at large, but the market has also enlarged. There are increasingly large numbers of non-Muslims banking with Islamic banking now. In fact, in the case of OCBC, 78% of its depositors in Islamic banking are non-Muslims.[46]

Profit is in fact the strongest motive for foreign banks to adopt and continue implementing Islamic banking. These banks have devoted more funds to the development of their respective Islamic Banking Division. Among the barometers are spending on human resources, marketing efforts, and product development.[47]

OCBC, for instance, has increased its overhead expenses for Islamic banking from RM0.4 million in 1997 to over RM1 million in 2000. This increase in the administration and general expenses, from RM36 thousands to more than RM230 thousands, indicates rising activities in the bank's Islamic Banking Division.[48] Likewise, SCBMB is also spending more on its effort to raise its market share in Islamic banking. From 1999 to 2000, it has more than doubled its expenses on personnel, establishment cost and marketing expenses. In 1999, it only spent RM221 thousands on personnel, RM19 thousands on establishment cost, and RM6 thousands on marketing. But in 2000, it had devoted RM561 thousands on personnel cost, RM89 thousands on establishment and, not so surprisingly, a whopping RM195 thousands on marketing expenses.[49]

It is imperative to note that the initial motive of the foreign banks was also to tap the Malay/Muslim market. SCBMB, for instance, reasoned, "the Muslim majority consumers (in Malaysia) presents a great opportunity for Standard Chartered Bank Malaysia Berhad to market Islamic banking products. Group wide, 60% of the

46 *Islamic Banker* (2001). This might be due to the perception of OCBC as a 'Chinese' bank.
47 These expenses are lumped together as overhead expenses in the bank's Annual Report.
48 The rise is also due to many applications received by the banks on its Islamic banking products, as we ll as due to the many training activities by the bank to train its staff.
49 SCBMB, *Annual Report 2000.*

population where SCBMB operates are Muslims. Islamic banking has allowed Standard Chartered to offer a new range of alternative consumer products which are Syariah compliant".[50]

3.4.2 Products

All of the three foreign banks offer rather similar products in term of deposit mobilisation, namely savings accounts, current accounts and investment accounts. But, few of them are also offering somewhat specialised products such as Mudharabah Investment accounts, both special and general accounts. As for financing, the banks are considerably different, especially in the case of OCBC. Still, all the three's financing provision are heavily eschewed towards property financing through BBA. Apart from being relatively more competitive compared to conventional mortgage and other home loan products, BBA housing loan found many satisfied customers, including those banking at the foreign banks.

Despite the wide array of products permissible by BNM, most foreign banks offer only several of them. The lists of products by foreign banks are as follows[51]:

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50 www.standardchartered.com.my , as accessed on 20th March 2002.

51 This list is in no way exhaustive, since all the banks are continuously expanding its IBS. This list is correct as of 31 December 2000.

Table 1

List of Products Offered by Foreign Banks

Bank	*Deposits*	*Financing/Loans*
HSBC	- Al-Wadiah Savings Account - Al-Wadiah Demand Deposits	- Al-Ijarah/Leasing - Al-Ijarah – thumma Al-Bai/Hire purchase - Qardhul hasan
OCBC	- Al-Wadiah Savings Account - Al-Wadiah Current Account - Al-Mudharabah General Investment Account	- BBA Property Financing - BBA Equipment Financing - Naqdi Facility/Fixed Rate overdraft - Ijarah Financing/Leasing
SCBMB	- Al-Wadiah Savings Account - Al-Mudharabah Investment Account	- BBA Property Financing - Trade Financing - Consumption financing

Source: Annual Reports, brochures.

3.4.2.1 Deposits

Although, all SPI participants and Islamic banks are allowed to offer a wide range of products, as can be seen in the appendix, but participating banks and other financial institutions chose their products rather selectively. They offer only the products and services that are suitable to them and marketable to their customers. Currently, majority of the foreign banks are concentrating on savings and current accounts, based on al-Wadiah and al-Mudharabah concepts.

As can be seen in Table 1, all of the banks have savings portfolio on their liabilities side, plus current or demand deposits accounts. Although this is a very common products range, but many other products could have been introduced along with BNM's approval, such as negotiable Islamic deposit certificate and al-Mudharabah specific investment deposit.

3.4.2.2 Financing

Similarly, the range of financing products offered by foreign banks is somewhat limited. Although BNM has approved more than 14 financing products, all the foreign banks are only concentrating on a handful of them, namely BBA property financing, leasing, trade financing and few others. Table 1 above has clearly indicated that Bai Bi-thaman Ajil (BBA) is among the most favourite, especially for property financing, while each bank regards other products differently. However, OCBC seems to be more aggressive in offering a variety of financing products. In fact, Naqdi facility is offered by few SPI banks only, among others are Maybank and Public Bank.[52]

In a broader perspective, BNM reported that a total of 48.3% of Islamic financing is using Bai Bithaman Ajil (BBA) concept, while al-Ijarah Thumma al-Bai is 22.2%, Murabahah 7.0%, al-Ijarah 4.3% and al-Musyarakah only 1.4%. The higher portion of BBA based financing is "in tandem with the continued exposure of Islamic financing to the broad property sector, (it) constituted the bulk of total financing (48.3%) amounting to RM 13.6 billion as at end-2001".[53]

Graph 1 below summarizes the application of Islamic financing concepts by Islamic banking for 2001. It is therefore, a no-surprise to find that majority of SPI banks are highly eschewed towards property financing, including foreign banks under study.

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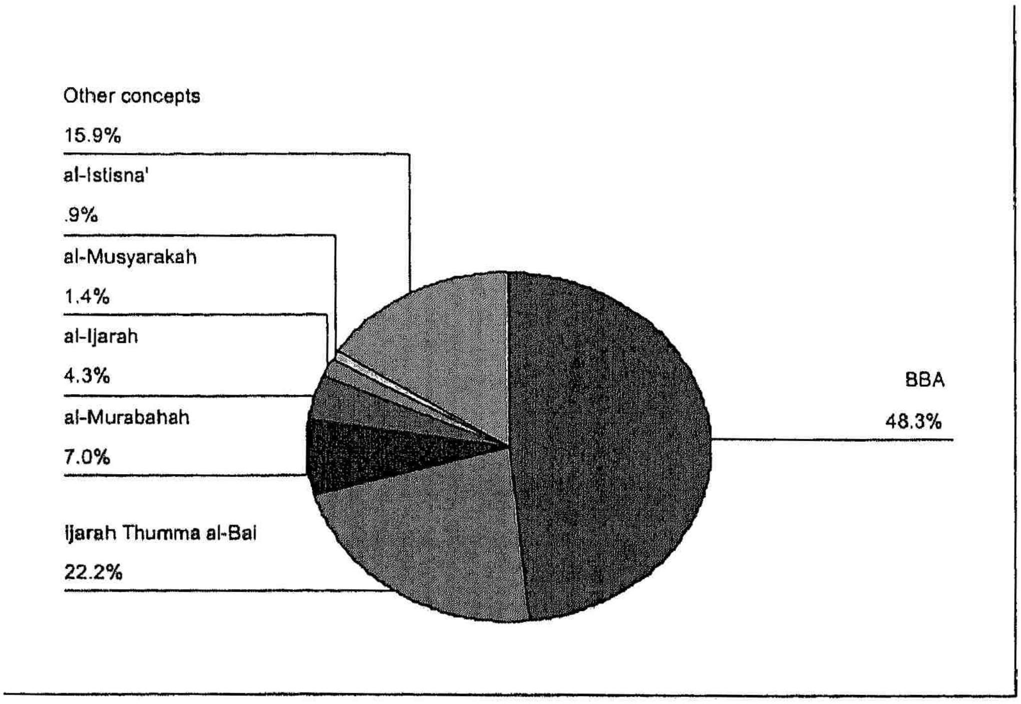
52 Interview with the Head, Islamic Banking Division.
53 BNM (2002). *Annual Report 2001.*

Graph 1

Islamic Financing by Concepts as at December 2001



Source: BNM Annual Report 2001.

3.4.3 Customers' base

It is interesting to find that majority of foreign banks' individual customers are non-Muslims, notably Chinese. There are several reasons for this; *one* is the perception that such particular bank belongs to a certain group of community. This is true to OCBC. As admitted by the bank[54], majority of its customers are Chinese, including its Islamic banking customers that amounted to almost 80%. This is so because the bank is perceived as a 'Chinese' bank, rather than a 'foreign bank', or for that matter a Singapore bank.[55] Although this market perception does not hurt the bank so far, in fact it reaps benefits from the situation, the bank feels that it should put more efforts to balance the proportion of its depositors.

[54] *Ibid.*

[55] Then again, Singapore itself is synonymous with Chinese. Thus the bank suffers or rather benefits from such perceptions?

However, the writer feels that this perception is rather advantageous for the Islamic banking sector as a whole. It not only shows that Islamic banking is accepted by all races, and religious beliefs, but also indicates that there is a huge growth potential for Islamic banking in Malaysia. Once all races accept Islamic banking as an excellent alternative to conventional one, Islamic banking will certainly be part of mainstream finance. This is true when we consider the large number of financially affluent Chinese, or other non-Muslims, in this country. And this trend could be spread to other parts of the world, since most Muslim countries are seeing Malaysia as an example in advancing Islamic banking.[56]

Another reason for non-Muslims to bank with foreign banks is the economic factor. As OCBC noted[57] most of its BBA home loan customers are Chinese who see BBA has an economic advantage over conventional home loan. To them, a fixed rate on the loan is more preferable to fluctuating interest rates; life is more predictable/manageable with such a fixed payments on their loan. This, coupled with the perception that foreign banks is better and more secure, has made Islamic banking at foreign banks an excellent alternative to many non-Muslims, especially Chinese.[58]

Nonetheless, we should also consider that the initial motive of foreign banks to embrace SPI was to tap Muslim customers in the country. Yet, albeit increasingly popular among non-Muslims, the Muslims are still a potential market to explore. Both HSBC and SCBMB admitted[59] that their target, and majority of their current customers, is Muslims. Thus, Muslims are also important for the expansion and existence of foreign banks in its marriage with Islamic banking.

56 Yakcop (1996) reiterated that many Muslim countries, with similar demographic conditions as Malaysia, could try to emulate Malaysia's dual banking system (i.e. IBS/SPI). Yakcop suggested that this model be called Malaysian Model of Islamic Banking. For details please see *Sistem Kewangan Islam di Malaysia*. Pp. 69-73.

57 Interview.

58 This is truer when one considers the fact that OCBC, as a 'Chinese bank', has made a strong show in Islamic banking among all foreign banks.

59 Written communication with the banks.

3.4.4 Parent bank's involvement in Islamic banking

Islamic finance has emerged in recent decades as one of the most important trends in the financial world. There has always been a demand among Muslims for financial products and services that conform to the Shariah (Islamic law). With the development of viable Islamic alternatives to conventional finance, Muslims are beginning to find Shariah compliant solutions to their financial needs. Given a total population of more than a billion Muslims worldwide and an estimated industry size of US$200 billion, Islamic finance is a serious business for Muslims and non-Muslims alike.

HSBC, OCBC, SCBMB and their respective parent banks recognise this demand, and they have accordingly taken initiatives to respond to the financial needs of their present and future customers. But among the three, it is HCBC that taking the lead in responding to Muslim customers globally. Its HSBC Amanah Finance, a subsidiary of HSBC Investment Bank Plc., is a direct answer of HSBC to the challenge of Islamic finance. It has "the global resources of the HSBC Group at its disposal and a dedicated team of professionals in Dubai, London, New York, Riyadh and Kuala Lumpur. With these strengths, HSBC Amanah Finance is uniquely positioned to understand, structure and deliver Islamic solutions and provide globally unrivalled products."[60] However, HSBC is facing some regulatory problems in its home base, the United Kingdom. Recently, it has to relocate its Islamic finance department from London to Dubai, United Arab Emirates. This, however, is one of the challenges facing the Islamic finance/banking worldwide.[61]

Likewise, Standard Chartered involvement in Islamic banking is also relatively dependent on its operations in Malaysia, Bahrain and other Gulf countries.

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60 www.hsbc.com
61 For further details on challenges of Islamic finance in Europe/U.K., please see *New Horizon*, various editions.

Nevertheless, as an 'emerging markets' bank, Standard Chartered has been playing a proactive role in promulgating Islamic banking and finance.

On the other hand, OCBC Singapore - as the parent company of OCBC Malaysia Berhad, is the least active in Islamic banking compared with the other two. In Singapore, OCBC only offered two Islamic banking products, Al-Wadiah Savings and Current Accounts. These two products, though, are only offered at certain branches across the island, especially in the areas where Malay/Muslim are majority.[62]

3.5 Conclusion

All the three banks involved in this study have had a long history in Malaysia; their presence, except for OCBC, in this country are counted in hundred of years. In fact, all the three have been here even before Malaysia gained its independence in 1957. This legacy is indeed remarkable and left no rooms for questioning their integrity or reputation. This has made this study even more important, since all the banks involved are prominent and respected financial institutions with a long history in Malaysia.

The banks participation in Islamic banking is also remarkable, particularly in Malaysia. From just one foreign bank offering Islamic banking products in 1993, that is SCBMB, today almost all foreign banks are offering Islamic banking scheme products. Among the motives of these banks to embrace Islamic banking is profit. This, coupled with the BNM's encouragement, has been the primary force behind foreign banks continuous involvement in developing Islamic banking industry at large. In fact, the foreign banks under study have pledge to meet the objectives set by BNM,

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[62] www.ocbc.com.sg

notably the target of 5% (and its subsequent increments) for Islamic banking in terms of total banking operations in 2000.