

Chapter 5

Concluding Remarks

This study has produced some interesting results, among which help explain the rapid growth of Islamic banking in Malaysia. Many Muslim countries, particularly those with similar demographical background as Malaysia, have a lot to learn from this country. In this regard, the writer primarily refers to his own country, Indonesia, which has been trying to implement Islamic banking, but hardly progressing as fast.

The results of the study are also meaningful for many Muslim countries embracing GATS (General Agreement on Trade and Services) through World Trade Organisation (WTO). When they are obliged to liberalise their financial markets, it is imperative to keep an upper hand on the foreign banks. The Muslim banking regulators might want to start regulating the foreign banks, by, for example, asking foreign banks operating in their country to adopt Islamic banking or, for that matter, be locally incorporated. Although most foreign banks operating in Muslim countries might not accept this approach, but it should be considered before the financial markets are fully liberalized under WTO.

Apart from that, and what is more important, is the approach of BNM in implementing Islamic banking in Malaysia. It was its clear-cut measures that attract many commercial banks in the country, including foreign banks, to embrace Islamic banking voluntarily. This market friendly attitude also brings about sustainable and robust growth in the Islamic banking sector, both measured by trend and ratio analysis. It is not an exaggeration to attribute the phenomenal growth of Islamic banking to BNM, in fact the sector owes a great deal to BNM ever since Islamic banking started modestly in 1983.

On performance of foreign banks, there are several results and conclusion that merit attention and further consideration.

- a. Foreign banks' participation in Islamic banking has been largely due to the influence of Bank Negara Malaysia. However, the banks' motive for profit is also a strong reason for the adoption of Islamic banking scheme, or SPI.
- b. The deposit growth of foreign banks' SPI has been phenomenal, especially during and post-Asian crisis 1997-98. There were tremendous amount of funds been transferred from conventional deposits to Islamic during 1997-98. Interestingly, this migration of funds continues even after the crisis is over.
- c. However, this encouraging fact has not been followed by similar trend in financing. Many banks still rely heavily on BBA property financing and investment on securities, which is relatively secure and less risky. This is rather disheartening, since the foreign banks, or most SPI banks for that matter, have not explored the very products that would differentiate Islamic banking, mudharabah and musharakah, intensively.
- d. The returns on assets (ROA) analysis further reinforce the findings on trend analysis. The SPI operations of foreign banks have shown a relatively higher profitability than the overall banking operations of the three banks, even during the crisis. This is an important result, since it would indicate the performance of Islamic banking product relative to its conventional counterpart. Based on this result, we can securely say that Islamic banking products are profitable in all conditions, adverse or favourable economic conditions.
- e. Among the factors that led to the above results are;

- a. The encouragement and direct supervision of BNM, and its market-friendly policies and regulation.
- b. Favourable macro-economic conditions of Malaysia, which includes robust and sustainable economic growth, relatively high income populace, free-market system that allows the alternative financial system to flourish and grow, and many more.
- c. Competitive nature of the Islamic banking sector in Malaysia. The introduction of SPI and the opening of second Islamic bank – Bank Muamalat, are among the factors that strengthen the Islamic banking sector at large. Such competition has resulted in innovative products, creative marketing efforts, higher market penetration and phenomenal growth. All these contribute to the good performance of Islamic banking in Malaysia. In fact, in certain aspects, outperforms conventional banking.

We conclude this study by inviting more researchers to join in this entourage. Islamic banking, and Islamic finance in general, requires a lot of scrutiny and critical analysis to prove its viability, as well as to bring it closer to its conventional counterpart. This is a task that no one researcher or scholar can possibly accomplish by him/herself. Continuous collaboration and teamwork will, *insya Allah*, take Islamic finance to a new height at par with – or even better than that of, conventional finance.

Amin.