

Islamic Banking in Malaysia

Malaysia certainly has changed under Mahathir's administration, transformed by twenty-first-century infrastructure and rapid growth. Yet race and religion remain flash points in a secular nation with a Muslim majority and prominent Chinese and Indian minorities. For twenty-two years, Mahathir has held radical Islam at bay without alienating the Muslim majority to build a prosperous, multiethnic nation. Under Mahathir, Malays were given Islamic schools and told that Islamic values were central to government policies. On 31 October 2003, Abdullah Badawi took over from Mahathir.¹³⁹

Among the countries in Asia with aspirations to become one of the region's financial centres, Malaysia is making considerable efforts to enhance its financial industry. A distinctive feature of Malaysia's economy is the fact that Islamic banking and financial services have been fully integrated into the country's existing financial system. In this last respect, Malaysia provides a good example of the banking industry's inventiveness and capacity for innovation.

Islamic banking was introduced to Malaysia through the Islamic Banking Act of 1983 and the simultaneous

¹³⁹Montlake, Simon, "Islam will test new Malaysia chief" (2003), *The Christian Science Monitor* (<http://www.csmonitor.com/2003/1030/p06s02-woap.htm>), 17 June 2004.

establishment of the Bank Islam Malaysia Berhad. The move was part of the Malaysian Government's strategy to support Muslim Malays who were perceived to be losing out to the more commercially minded Chinese (although Malays make up the majority of the country's population nationwide, in the capital Kuala Lumpur, and also in provincial Penang, it is the Chinese who dominate the business sector and who have played a leading role in the industrialisation and economic growth of Malaysia).¹⁴⁰ Nowadays, almost all financial institutions in Malaysia have opened separate Islamic departments and there are Islamic securities and money markets. Meanwhile, there are two entirely Islamic Banks, the first being the aforementioned Bank Islam Malaysia Berhad and the second being Bank Muamalat Malaysia Berhad. The first to be established, Bank Islam Malaysia Berhad, operates through eighty-five branches in the country whilst the more recently-established Bank Muamalat Malaysia Berhad has forty-six branches. In addition to the Islamic banks, there are also thirteen commercial banks that offer products and services under the Islamic banking scheme.¹⁴¹

Today, Malaysia is believed to have one of the most developed interest-free financial systems in the world. Besides the Interest-free Banking Scheme, there is an Islamic debt securities market developed in 1990 and an Islamic equity market, operating since 1995; an Islamic Interbank Money Market was established in 1994.

As of 30 June 2003, Islamic banking assets accounted for 9.4 per cent or RM75.5 billion of the banking system in Malaysia. Deposits and financing accounted for 10 per cent

¹⁴⁰Davies, Rod, "Malaysia capsule", *Orient Pacific Century*, 10 June 2002.

¹⁴¹Malaysia Industrial Development Authority, Banking, Finance & Foreign Exchange Administration (<http://www.mida.gov.my/>), 17 June 2004.

and 9 per cent respectively, whilst *takaful* assets accounted for 5.3 per cent.¹⁴² The government wants that share to rise to 20 per cent by 2010 and plans to do this by opening the door to foreign Islamic banks as well as introducing new measures to help the country emerge as a regional hub for Islamic finance.¹⁴³

8.1 Origins of Islamic Banking in Malaysia

In Malaysia, civil disturbances in the late 1960s by ethnic Malay Muslims protesting at the dominance of ethnic Chinese in the commercial sector prompted a government programme to redistribute wealth and concentrate more political power in the hands of the Muslim Malays. This was at a time when Islamic traditionalists were also protesting against what they saw as decadent Western influences, which had taken root in Malaysia, corrupting the moral and cultural life of the nation. It was partly in order to placate these activists as well as to provide business opportunities specifically aimed at Muslim Malays that the government initiated Islamic banking in parallel with conventional banking on a trial basis. Ten years later, it made Islamic banking a permanent part of the financial structure, and increasingly takes pride in its Islamic banking sector.

Islamic banking was introduced to Malaysia through the Islamic Banking Act (IBA) of 1983 and the simultaneous establishment of the Bank Islam Malaysia Berhad. A dual banking system was introduced which allowed Islamic banking and conventional banking to co-exist side by side. Today, almost all financial institutions in Malaysia have opened separate Islamic departments and there are Islamic securities and

¹⁴²"Islamic banking sector sets target", *The Star*, 19 August 2003.

¹⁴³"Malaysia to accept Islamic banks", *The Financial Gazette*, 6 May 2003.

money markets. Meanwhile, the two entirely Islamic Banks, the first being the aforementioned Bank Islam Malaysia Berhad and the second being Bank Muamalat Malaysia Berhad, which in 2003 had forty branches and total assets of RM7.3 billion.¹⁴⁴

The IBA of 1983 was introduced to govern the operations of Islamic banks in Malaysia. It provided Bank Negara — Malaysia's central bank — with powers to supervise and regulate Islamic banks, similar to the case of other licensed banks.

The Government Investment Act 1983 was enacted at the same time to empower the Government of Malaysia to issue Government Investment Certificates (GIC), which are government securities issued according to Shari'ah principles. As GICs are regarded as liquid assets, Islamic banks could invest in them as a means of meeting prescribed liquidity requirements. They could also invest in them as a way of deploying their surplus funds. The Government Investment Act 1983 was subsequently amended for both (Islamic) Statutory Reserves and the Liquidity Reserve Requirement purposes.

The Banking and Financial Institutions Act (BAFIA) 1989, which came into force on 1 October of that year, provided for the licensing and regulation of institutions carrying on banking, finance company, merchant banking, discount house and money-broking businesses. It also provided for the regulation of institutions carrying on scheduled business comprising non-bank sources of credit and finance, such as credit and charge card companies, building societies, factoring, leasing companies and development finance institutions.¹⁴⁵ In 1996, section 124 of the BAFIA was amended to allow banks licensed under this Act to introduce Islamic banking business (1996).

¹⁴⁴www.muamalat.com.my.

¹⁴⁵Non-scheduled institutions, which are engaged in the provision of finance, may be subject to Part X and XI of the BAFIA as the Minister of Finance may decide.

8.2 Bank Negara Guidelines on Islamic Banking

As part of the effort to streamline and harmonise the Shari'ah interpretations among banks and takaful companies, Bank Negara Malaysia (BNM, the central bank of Malaysia) established the National Shari'ah Advisory Council (NSAC) on Islamic Banking and Takaful on 1 May 1997 as the highest Shari'ah authority on Islamic banking and takaful in Malaysia. The primary objectives of the NSAC are to act as the sole authoritative body to advise BNM on Islamic banking and takaful operations; to co-ordinate Shari'ah issues with respect to Islamic banking and finance (including takaful); and to analyse and evaluate Shari'ah aspects of new products/schemes submitted by the banking institutions and takaful companies.

Guidelines pertaining to Islamic banking, issued by Bank Negara from time to time, are as good as a legal requirement because under the Bank Negara Ordinance, Malaysia's central bank is vested with some powers to regulate the market.

Some examples of these Guidelines include having the Central Bank instruct all conventional banks operating Islamic banking business and Islamic financial business to maintain separate current accounts and clearing accounts with the Central Bank of Malaysia as the Islamic accounts need to be used only for transactions which are *halal* and conducted according to Shari'ah law. The same reason is also behind the separate membership code for RENTAS (Real Time Electronic Transfer of Funds and Securities) to be maintained. In addition, there should be separate submission of statistical reports in FISS (Financial Institutions Submission System) on a monthly basis.

8.3 The Shari'ah Supervisory Council

In contrast to the Islamic banks that have been set up in Arab countries since the end of the 1970s, Malaysian financial

institutions, with the support and encouragement of the government, have chosen their own approach in interpreting Islamic law and this has allowed them to develop a wide range of Islamic financial instruments. Of course they must still fulfil the requirements of Shari'ah law in this respect — Shari'ah compliance is a core component of the Islamic system of financial management and as noted previously, there can be no compromise. In Malaysia, the consistency and uniform application of Islamic rules is supervised by the NSAC for Islamic Banking and Takaful [Islamic insurance] established by the central bank in 1997.¹⁴⁶ Both the IBA and the BAFIA made the establishment of the Shari'ah Supervisory Council a statutory requirement. The IBA is imposed on a bank that wishes to conduct Islamic banking [section 3(5) b], whilst the BAFIA compels Malaysia's central bank, Bank Negara, to establish a National Shari'ah Supervisory Council at the national level to advise the central bank on matters pertaining to Islamic banking [section 124 (7) a]. Relatively speaking, this move to implement a Shari'ah regulatory body for financial matters (the second after Sudan) has proved to be successful in regulating Islamic banking business in terms of Shari'ah compliance as well as standardisation.

8.4 Making Islamic Banking Compatible with Conventional Banking

Changes were made precisely to recognise and address the need to reconcile the differences between Islamic and conventional banking. The Stamp Duty Act in 1989 was amended to

¹⁴⁶Sudan has a Shari'ah Supervisory Board at the central bank and in Iran they have a committee within the Council of Guardians, which sets the rules for the banking and finance sector. In other jurisdictions, individual Islamic financial institutions and the Islamic banking units at conventional financial institutions appoint their own Shari'ah supervisory boards or advisors.

avoid Double Stamp Duty and double taxation is prevented under the Real Property Gains Tax (RPGT) of 1979. Under the amended provision, any gain from the transaction if realised within five years from the date of disposal will be considered as a chargeable gain, and would be taxable. If the acquisition and disposal were affected in the same year (as in the case of *bai bithaman ajil* for house financing), the rate of tax would be 30 per cent from the profit or gain generated from the transaction. Therefore, amendments in 1985 provided that in case of disposal of an asset by a person to an Islamic bank under a scheme wherein that person is financed by such bank in accordance with the Shari'ah, the disposal price shall be deemed to be equal to the acquisition price.

Other legal developments that encouraged adherence to Shari'ah law in financial transactions have included an amendment to the Hire Purchase Act 1967, which was "Islamicised" by the preparation of a Bill on Islamic Hire Purchase by a Technical Committee at the national level. The Islamic Hire Purchase Bill is scheduled to be tabled in Parliament by the end of 2004 to pave the way for Islamic hire purchase in the country. The move will provide an alternative to the conventional hire purchase system. The Bill would be similar to the Hire Purchase Act 1967 but with new elements incorporated, taking into account Islamic insurance (*takaful*) and the abolition of interest.¹⁴⁷ An Islamic Tribunal Panel was also established to solve disputes pertaining to Islamic banking outside the court following the procedures of the Code of Arbitration as laid down by NSAC and efforts were made to neutralise legal impediments towards allowing Islamic bank/Islamic windows to offer *musharakah* and *mudarabah* financing, for example

¹⁴⁷"Islamic hire purchase bill to be tabled in parliament this year", *New Straits Times (Malaysia) Berhad*, 30 April 2004, Nation, p. 14.

issues pertaining to some provisions in BAFIA about acquiring shares and immovable property as well as compliance with other relevant law such as the National Law Code.

8.5 Some Observations on the Malaysian Legal Framework

Despite ensuring that Shari'ah law is incorporated within the legal boundaries of banking and finance, there still exists the underlying gap between Islamic and conventional banking. The IBA and BAFIA are very brief and regulatory in nature; also they do not offer substantive law where the bankers or customers would be able to understand how it works for them. Ultimately, the jurisdiction of the courts to hear Islamic banking disputes still lies with the Civil Court due to a few provisions in the Federal Constitution of Malaysia.¹⁴⁸ Double taxation is presently under the Income Tax Act and *Zakat* Obligation. Currently, rebate from the taxable amount, is only given to individual Muslims who paid *zakat* under section 6A (3) of the Income Tax Act. No such rebate is given to an "Islamic" corporation or company who paid *zakat*.

An important question to be answered is, what extent, have the provisions in IBA and BAFIA (Islamic Windows) prevailed over other legal requirements? Section 55 of IBA states that in case of conflict between the provisions of the Company Act 1965 and the provisions of IBA, the latter shall prevail. Does this mean, in all other conflicts, the provisions of IBA shall be put aside? (This principle referred to as "*expressio unius est exclusion alterius*" or "the express meaning of one thing implies the exclusion of another".) In comparison, Pakistan's

¹⁴⁸Tinta Press vs. Bank Islam Malaysia Berhad; Bank Islam vs. Adnan b. Omar and Dato' Nik Haji Mahmud vs. Bank Islam Malaysia Berhad.

Ordinance on *Mudarabah* Companies and *Mudarabah* (Flotation and Control), 1980 (XXXI of 1980), where section 42 provides that the provisions of this Ordinance shall have the effect notwithstanding anything contained in the Companies Act, 1913 or any other law for the time being in force.¹⁴⁹

8.6 Islamic Financial Products in Malaysia: The Concept of an Islamic Window

Islamic financial products in Malaysia were introduced in a form of an Islamic Window where instead of establishing a number of new Islamic banks, existing conventional banks were allowed to offer Islamic banking products to customers. It was the objective of the Malaysian Government to develop the Islamic banking system parallel to the conventional system. The concept of an Islamic Window was implemented in March 1993 when the central bank of Malaysia introduced an Interest-Free Banking Scheme. Twenty-one Islamic financial products were developed to cater for this scheme though it only involved three major banks initially. By July that same year, the scheme was extended to all financial institutions in Malaysia.¹⁵⁰ As of April 2004, the Islamic banking system was represented by two Islamic banks which provide banking services based on Islamic principles.¹⁵¹

¹⁴⁹Bakar, Mohd. Daud, "Legal issues: The Malaysia case", The International Islamic Financial Forum, International Institute of Research, Dubai, March 2002.

¹⁵⁰See Ahmad, Norafifah and Haron, Sudin, "Perceptions of Malaysian corporate customers towards Islamic banking products and services", *International Journal of Islamic Financial Services*, March 2002.

¹⁵¹Malaysia Industrial Development Authority, Banking, Finance and Foreign Exchange Administration (2004) (<http://www.mida.gov.my/>), 17 June 2004.

8.7 The Malaysian Government Investment Certificate

The Malaysian Government Investment Certificate (MGIC) is an experiment by Malaysia to issue Treasury Bills or Government Bonds on a Shari'ah basis. It was created and introduced when Islamic banking came into operation following the establishment of Bank Islam in 1983. Conceptually, government bonds are certificates showing the borrowing by the government from the country's financial institutions, etc.; effectively they represent a loan taken by the government from its own citizens. The loan is usually required by the government to finance its recurrent expenditures or development expenditure for public projects. MGICs are issued by BNM on behalf of the Malaysian Government. These are issued according to the Islamic contract of *al-qardh al-hasan* and are of various maturities, both short-dated and long-dated. Each certificate carries a face value in multiples of RM10 000 and issued at par. It is also redeemable at maturity or on demand at BNM at par.

Al-qard al-hasan is a benevolent debt-financing contract quite distinct from the strictly commercial deferred contract exchange. The benevolent nature of this contract is well suited to lending by the country's citizens to their government for financing its operation and development of social projects. Under *al-qard al-hasan*, the borrower is not obliged, but has the option, to reward the lender for his benevolent deed. The government thus has the absolute discretion whether to reward, and if so by how much, the holders of MGICs. It may also vary the rewards for the short-dated and the long-dated MGICs. The absolute discretion that the government has, in respect of the rewards that it can offer, means that MGICs are potentially a highly suitable

instrument of monetary policy under the Islamic financial system.¹⁵²

8.8 Debt Securities

In Malaysia, Islamic debt securities are traded in the interbank market and money market. Debt securities belonging to the category of loan stocks may be traded on the Kuala Lumpur Stock Exchange (KLSE).¹⁵³

Islamic Debt Securities (IDS) is an evidence of debt issued by corporates and defined as an IOU with a commitment to pay the coupon over a fixed period of time or the selling price at the end of a specific period. Issuance of IDS can be based on the concepts of *murabahah/bai bithaman ajil*, *mudharabah* or *sukuk al ijarah* (certificates of leasing). It can be traded in the secondary market under the concept of *bai al dayn* or debt-trading and provides investors with an investment avenue for short- or long-term funds.¹⁵⁴

The IDS is rated by Rating Agency Malaysia (RAM) or Malaysia Rating Corporation (MARC) and may either be bank guaranteed or stand-alone.

- (i) Short Term Debt Securities are available for tenures (such as one, three, six or nine months), the customer may invest in these notes in denominations of RM500 000 or RM1 000 000 and the notes will be issued at discount and redeemed at face value upon maturity.

¹⁵²See Ismail, Abdul Halim Hj., *Overview of Islamic Banking*, 2001.

¹⁵³Ibid.

¹⁵⁴*Bai al dayn* is a short-term facility with a maturity of not more than a year. Only documents evidencing debts arising from bona fide commercial transactions can be traded.

- (ii) Long Term Debt Securities are available for tenures of three years and above, the customer may invest in these notes in denominations of RM1 000 000 to RM5 000 000 and the bonds will earn an income semiannually (dividend) or will be issued at discount and redeemed at face value upon maturity.

As local Islamic investors in Malaysia have been deterred by the poor performance to date, of the KLSE, three of the fund management groups have launched Islamic bond funds that aim at capital preservation and a regular non-interest-based income. The Islamic securities market in Malaysia developed in the 1980s, with the issue of government and then corporate notes based on *al bai bithamen ajil*, the sale of goods on a deferred payments basis. Usually the notes were issued to cover equipment financing, the client settling by instalments that provided the income stream on which the security could be based. Although there are objections in the Gulf amongst Shari'ah scholars to *bai al-dayn*, the sale of debt, as it is argued that those owing money should know their creditors, in Malaysia it is argued that as long as those being financed know in advance their debts will be traded, the issue of debt securities is legitimate.¹⁵⁵

8.9 Islamic Accepted Bills

Bank Negara has also introduced a new Islamic financial instrument known as the Islamic Accepted Bills (IAB). The concept of IAB is similar to bankers' acceptances (BAs), but is formulated on the basis of Islamic principles, namely *al-murabahah*

¹⁵⁵See Wilson, Rodney, "The need for more risk taking products", The International Islamic Financial Forum, International Institute of Research, Dubai, March 2002.

(price mark-up) and *bai al-dayn* (debt-trading). There are two types of financing under the IAB facility, namely:

- Imports and domestic purchases; and
- Exports and domestic sales.

In order to provide consumer financing on the basis of Islamic principles, and to explore the possibilities of financing the consumer for the purchase of consumer good under the existing Hire Purchase Act, Bank Negara was actively involved in the drafting of the Islamic Hire and Purchase Bill, 1990 which was forwarded to the Ministry of Trade to be tabled at the Malaysian Parliament.

Bank Negara granted approval for a syndicate of banks in Malaysia to issue corporate bonds for a multinational company on the Islamic principle of *bai bithaman ajil* in 1990. To create an active market for this Islamic financial instrument, the syndicate was allowed to trade in the notes amongst institutions approved by Bank Negara under the Islamic concept of *bai' al-dayn* (debt-trading). Since then, Bank Negara has approved two more Islamic papers.¹⁵⁶

8.10 *Takaful* Insurance in Malaysia

The *Takaful* Act introduced by the Malaysian Government in 1984, was enacted to provide for the registration and regulation of *takaful* businesses in Malaysia and for other purposes relating to or connected with *takaful*. *Takaful*, it will be recalled, is the term used to describe insurance schemes that are that Shari'ah compliant. In this instance, section 2 of the *Takaful* Act

¹⁵⁶Rahman, Azizan Abdul and Idris, Rustam Mohd, "Overview of the Malaysian financial system and the development of Islamic banking in Malaysia", *Bank Negara Malaysia* (<http://faculty.unitarklj1.edu.my/homepage/coursewareweb/BEB2213/lesson12/note.htm>).

defines *takaful* as “a scheme based on brotherhood, solidarity and mutual assistance which provides for mutual financial aid and assistance to the participants in case of need whereby the participants mutually agree to contribute for that purpose.”¹⁵⁷

In Malaysia, *takaful* insurance is not conducted through brokers or agents but directly by employees of *Syarikat Takaful Malaysia*, through desks at Bank Islam branches, and at sixteen *Tabung Haji* offices.¹⁵⁸

In Malaysia, there are two forms of *takaful* insurance:

(i) General *Takaful* Insurance

Under general *takaful* insurance, the types of cover offered are fire, motor, accident, marine, personal accident, workers' compensation and employers' liability. The participant determines the amount for which he wishes to insure, and pays his *takaful* contribution to the company. The amount of contribution is assessed on the value of the asset to be covered. The contract runs for one year and specifies that any profit will be shared in a given ratio if the participant does not make any claims. The company pools all contributions and invests them in *halah* investments. The participants agree that the company shall pay compensation from the general fund to any fellow participant who might suffer a loss, and also operational costs.

(ii) Family *Takaful*

This is an investment programme to provide *halah* investment returns to the participant as well as mutual financial aid. Individuals participate to save regularly a sum of money to provide for dependants if they should die prematurely, or as a contingency savings if they survive to maturity of the plan. The plan may be taken for terms of

¹⁵⁷“What is Takaful”, The Malaysian Insurance Institute.

¹⁵⁸Hussain, Jamila, op cit, p. 191.

ten, fifteen or twenty years. Participants must be between the ages of eighteen and fifty years, and the plan must mature before the participant reaches sixty years.

The contract is also based on the *mudarabah* principle. This is a partnership where one partner gives money to another to invest in a commercial enterprise: the investment comes from the first partner (the *rabb-ul-mal*), whilst the management and work is the exclusive responsibility of the other (the *mudarib*). The participant decides the amount of insurance required and the amount he wishes to pay and the company determines the minimum amount of instalment (RM\$15 per month in 1988). The company maintains two accounts, the Participant's Account (PA), into which as much as 95 per cent of the participant's contributions are paid as savings and investment, and a Participant's Special Account (PSA) where the balance of the contribution is credited as *tabarru'* (donation) for the payment out of compensation to claimants. The proportion credited to each account depends on the age group of the participant and the maturity period of the policy and is worked out by actuaries. The PA operates as a kind of savings account while PSA is a form of mutual fund.¹⁵⁹

8.11 Conclusion

Islamic banking has been available in Malaysia since 1983 and to date, Islamic banking products are available at two full-pledge Islamic banks as well as at all commercial and merchant banks in Malaysia. Even so, after two decades, these products are still not fully accepted by customers. As of 30 June 2003, Islamic banking assets accounted for 9.4 per cent or RM75.5 billion of the banking system in Malaysia. Deposits

¹⁵⁹Ibid.

and financing accounted for 10 per cent and 9 per cent, respectively, whilst takaful assets accounted for 5.3 per cent. Deputy Finance Minister Datuk Shafie Mohd Salleh regards the Financial Sector Masterplan's target for the Islamic Banking and takaful industry to achieve 20 per cent share of the total banking system by 2010 to be within reach.¹⁶⁰

Could Malaysia become a role model for countries like Britain, which is looking to integrate Islamic banking with its conventional banking system? This is certainly the opinion of experts like David Vicary, director of financial services in Deloitte Kassim Chan, a professional services firm in Kuala Lumpur.¹⁶¹

"These countries are now looking at Malaysia," he says, noting that Kuala Lumpur is serious about setting up a proper Islamic banking framework in terms of products as well as legal and accounting infrastructure, "unlike the fragmented or ad hoc Islamic banking attempts in some Muslim countries."

Vicary notes that surveys show demand for Islamic banking is increasing globally at an estimated compounded annual growth rate of 15 per cent. He adds that there is strong desire to relocate Arab funds currently residing in New York, London, Frankfurt and Paris to Shari'ah-compliant financial centres such as Kuala Lumpur.

Malaysia, which has steadily developed integrated, or dual, banking systems has the potential to be one of the most suitable candidates for these migrating funds. "The Labuan International Offshore Financial Centre, under the guidance of the Labuan Offshore Financial Services Authority, is one of

¹⁶⁰"Islamic banking sector sets target" (2003), *Bank Islam Malaysia Berhad* (http://www.bankislam.com.my/berita_Ogos19_e.htm), 17 June 2004.

¹⁶¹"Dual banking system attracts global interest" (2003), *Malaysia Industrial Development Authority* (<http://www.mida.gov.my>), 17 June 2004.

the attractive plays for these potential funds to reside in," adds Vicary.

Another plus point for Malaysia is the IFSB, an association of central banks, monetary authorities and other institutions that regulate the Islamic financial services industry. Established in Kuala Lumpur in November 2002, the board's members include a strong list of international players. "The presence of the IFSB in Malaysia could significantly raise the attractiveness of the marketplace in Malaysia," notes Vicary.

Bank Negara Malaysia has awarded the first foreign licence for a full-fledged Islamic bank in Malaysia to Kuwait Finance House (KFH) which will allow the Kuwait-based bank to open up a new foreign Islamic bank in Malaysia. The move, which is part of the overall efforts to strengthen the integration of Malaysia's Islamic banks into the global system, will effectively open up part of Malaysia's banking sector to foreign competition three years ahead of its World Trade Organisation deadline. A market leader in the Islamic banking industry in Kuwait, KFH provides a large spectrum of services that includes real estate financing, lease financing, trade finance and portfolio investing. The expedited liberalisation on licensing reflected the government's belief that Malaysia has already developed a competitive, world-class Islamic banking system. According to Bank Negara, the central bank, the decision to open up the industry to foreign players sooner than 2007 was made following the robust achievement of the Islamic financial industry in the country.¹⁶²

As of April 2003, Islamic banking assets in Malaysia stood at 72 billion ringgit (US\$19 billion), accounting for 9.2 per cent of

¹⁶²Saifuddin, Sadna, "Kuwait finance house secures Islamic banking licence" (2004), *New Straits Times (M) Berhad* (<http://www.nst.com.my>), 17 June 2004.

the country's total banking assets. In June 2003, Bank Negara said it would issue new Islamic banking licences to foreign banks active in the global Islamic banking sector. Governor Zeti Akhtar Aziz says the move "will promote greater competition and act as a bridge between Malaysia and other global Islamic financial markets."¹⁶³

¹⁶³"Role model: Malaysia is showing the world how to integrate conventional and Islamic banking systems", *The Asian Banker Journal*, Issue 41, 2003, p. 17.