Bank Islam Malaysia:
A Global Leader in Islamic Finance

Malaysia has a well-established and recognised competitive advantage in Islamic finance that is continually strengthened by the operational environment of progressive regulation, favourable tax regimes and, most importantly, supportive authorities within the country. Over the last five years, the Islamic banking assets within Malaysia’s banking industry have almost doubled, expanding from RM303 billion (US $93 billion) at the end of December 2009 to RM557 billion (US $171 billion) at the end of December 2013. Islamic banking (also known as Shariah compliant finance) is the term used to describe banking activities that operate in compliance with the principles of Shariah law through the development and application of Islamic principles that promote ethical and responsible financing. The tenet of Islamic finance requires financial transactions to be supported by genuine productive activity and emphasis on risk-sharing, thereby strengthening the link of finance to the real economy. Furthermore, the risk-sharing dimension of Islamic finance instils discipline and responsibility in financial institutions to undertake appropriate due diligence, ensuring profits are commensurate with the risks assumed.

Although the principles have been applied historically to varying degrees across the globe in different Muslim communities, the number of Islamic banks formed specifically to apply these principles grew significantly only in the late 20th century – operating as private or semi-private commercial institutions serving wider Muslim communities. As a matter of fact, the global Islamic finance industry recorded a compounded annual growth rate of 16 percent from 2006 and 2012. Although the size is still small compared to the conventional finance industry (Islamic finance is approximately 1.6 percent of total world financial assets), with as many as 600 financial institutions across 75 countries offering Shariah compliant products and services, the potential is immense. According to the latest report by Ernst & Young (World Islamic Banking Competitiveness Report 2013-14), Islamic banking assets are set to cross US $1.7 trillion by the end of 2014, suggesting an annual growth of 17.6 percent over the last four years, and this number is expected to exceed US $3.4 trillion in 2018.

For Malaysia, Islamic banking assets accounted for 25 percent of the Malaysian banking system’s assets in 2013 from 19.6 percent in 2009, while Islamic financing accounted for 27.5 percent of total banking financing from 21.6 percent in 2009 (Islamic financing is expected to account for 40 percent of total financing by 2020). Likewise, the Islamic banking system’s total deposits also constituted 26.6 percent of the Malaysian banking system’s deposits in 2013, an increase from 20.7 percent from five years ago.

At present, the Islamic banking industry within Malaysia is transitioning through a new phase of development. The implementation of the Islamic Financial Services Act 2013 (IFSA) has been the driver of this change; IFSA has amalgamated several separate laws into a single legislative framework and repealed the Islamic Banking Act 1983, the Takaful Act 1984, the Payment System Act 2003 and the Exchange Control Act 1953. The main objective of IFSA is to promote financial stability and compliance with the Shariah principles. For the Islamic banking industry, this move signifies the commitment by the government via the Central Bank to advance Malaysia’s position as an Islamic finance hub and centre of reference. IFSA is set to pave the way for the development of an end-to-end Shariah compliant regulatory framework, reinforcing the effective application of Shariah rules and principles in the conduct of Islamic financial institutions. For instance, the act distinguishes deposits made for
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**Bank Islam Malaysia Berhad**

A leader in the field of Islamic banking in Malaysia is Bank Islam Malaysia Berhad (Bank Islam). Bank Islam has been in operation since July 1983 and was originally established with the sole purpose of assisting with the financial needs of the Muslim population of Malaysia. The bank was initially founded with an amount of authorised capital of RM500 million (US $153 million) and paid-up capital of RM79.9 million (US $25 million). Since then, it has expanded considerably. As of 31 December 2013, its authorised and paid-up capital stood at RM 2.54 billion (US $779 million) and RM 2.3 billion (US $705 million) respectively. Over the years, Bank Islam has extended its services to the wider, non-Muslim, population and currently provides a comprehensive range of Shariah compliant banking services with more than 70 innovative and sophisticated Islamic banking products and services, comparable to those offered by its conventional counterparts, including mobile banking, card services and traditional banking solutions.

Currently, Bank Islam has the widest dedicated Islamic banking network in Malaysia with 134 branches and more than 1,200 self-service terminals across the country. It is primarily a retail bank with consumer banking constituting more than 70 percent of total financing. As the first Islamic bank in Malaysia, Bank Islam has the advantage of having a strong brand name and franchise that significantly differentiates it from its competitors – creating an appealing image of being the purest Islamic bank.
that has attracted and continues to attract a growing, loyal customer base. To date, the bank is servicing about five million customers nationwide. The bank has unwaveringly focused on constantly expanding and enhancing its portfolio of Shariah compliant products and services to provide more choice and value to its customers. Innovative product offerings have been the key competitive advantage for the bank over the years as it continuously strives to maintain its position as the flag bearer of the Islamic banking industry. The bank was the first to innovate and market new Islamic offerings, such as the award-winning Transaction-At-Palm Mobile Banking-i (“TAP-i”), Al-Awfar Investment and Savings-i and unique benefits such as Payment Holiday Scheme for its house financing customers, where they are required to pay only 10 monthly installments instead of 12 in a year. In fact, it enjoyed the first mover advantage for personal financing based on a floating rate launched in 2012.

Bank Islam realises the need to move towards a customer-centric organization, emphasizing on excellent service delivery across all customer touch points. Among others, it constantly works towards developing more efficiently designed systems to meeting customer needs in a more straightforward and effective manner, with transactions through electronic channels currently constituting around 90 percent of Bank Islam’s total transactions. Similarly, automation has been driven forward by the bank to improve convenience and access for customers. Meanwhile, the bank continues to promote human interaction to develop long lasting relationships with customers where electronic measures are not appropriate or the best choice for the customer. With an aspiration to attain service excellence, Bank Islam recognises the significance of delivering personal, flexible and pro-active service, where its employees go out of their way to help resolve issues.

Malaysia is one of the Asean-5 economies – alongside Indonesia, the Philippines, Singapore and Thailand – and is forecast to be the only one of the five nations that will likely experience faster growth in 2014 than in 2013. Malaysia’s real gross domestic product (GDP) is predicted to grow at a faster rate of between 4.5 percent and 5.5 percent in 2014, after expanding by approximately 4.7 percent in 2013. Domestic demand growth is expected
to be driven by private investment activities, while consumer demand will possibly expand at a softening pace due to the macro-prudential measures implemented by the government.

For 2014, Bank Islam is determined to continue its focus on the retail banking sector, in which it has an edge, albeit with a cautious stance. Financing at Bank Islam, which was driven mainly by consumer banking, grew 21.7 percent in 2013, significantly greater than the industry average of 10.6 percent. As the “true blue” Islamic bank in Malaysia, Bank Islam’s loyal customers are those who are banking on convictions and do not compromise on Shariah principles, especially in relation to co-mingling of funds and marketing of products. The shift in mindset and increased awareness in Islamic finance has led to a growing demand for Islamic products. It is this market that Bank Islam plans to continuously capture.

At the same time, the bank remains cognizant of the changing economic landscape and the potential impact of the macro-prudential measures on consumer sentiment. This gives rise to the need to re-balance its financing portfolio. Consumer demand will face a number of hurdles over upcoming years due to austerity policies and a number of macro prudential measures the government has implemented in order to control the budget deficit as well as household debt. Business financing via the corporate and commercial sectors is expected to absorb some of the excess in financing demand caused by over-leveraged households. Bank Islam plans to act on these opportunities – focusing on growth in these areas whilst adapting and innovating to meet customer needs in this environment.

For business financing, Bank Islam intends to be involved in facilitating major infrastructure projects, such as the Klang Valley Mass Rapid Transit (KVMRT) - under the Economic Transformation Programme (ETP). Furthermore, the bank will continue to promote financial inclusiveness as it has in the past, when it collaborated with VISA to introduce the country’s first low-cost mobile point-of-sales (mPOS) system, where small business owners can now enjoy the benefits of electronic payments.

Despite the success it enjoys today, it has not always been a smooth journey for Bank Islam. In fact, it was the bank’s current managing director, Dato’ Sri Zukri Samat, who managed to transform Malaysia’s maiden Islamic bank from the brink of financial collapse to become one of the country’s top players in the industry. Zukri was roped in to lead the ailing bank from its financial crisis in 2006. He has been instrumental and visionary in his role at the top – leading the transformation of the bank from the setbacks suffered during the 2005/2006 period of financial turmoil. By restructuring and re-prioritising the bank’s operations, he was able to refocus the business on meeting customer needs effectively and efficiently and lead the bank into a direction of significant growth and progression. He was also responsible for the successful reinvention of the bank’s brand. His foresight in implementing these strategies soon helped the bank back to the path of recovery within 12 months. With him at the helm, the bank made remarkable progress and returned to the black, reaching a new record every year since 2007. His leadership has also resulted in the substantial growth of Bank Islam as it now stands as one of Malaysia’s leading Islamic banks, valued at almost RM6 billion (US $1.8 billion).

Zukri’s leadership style is one that centred on values, putting ethics and integrity above everything else. He believes in always doing the right thing and stands guided by this belief where decision-making is concerned. As a strong advocate of putting the best
people in the best-suited jobs, he has developed a workplace focused on achieving results through effective nurturing and inspiration-based performance. He has cultivated a workplace with a focus on leaders creating more leaders, especially in the current condition where talent in Islamic banking is scarce. Bank Islam’s MD exemplary work has been recognised by a number of awards, such as the recent “Islamic Banker of the Year 2013” award by Global Islamic Finance Awards ("GIFA") in Dubai, United Arab Emirates. Furthermore under his leadership in 2013, the bank was named “5th Strongest Bank in Malaysia” by The Asian Banker and garnered several awards, including “Most Innovative Islamic Bank (Malaysia) 2013” by International Finance magazine, “Best Islamic Bank in Malaysia” by Islamic Finance News, “Islamic Bank of the Year (Malaysia) 2013” by The Banker, “Best Islamic Bank in Malaysia” by Focus Malaysia, “Trailblazer of the Year 2013” – Trailblazer Awards by Banking & Payments Asia, amongst others.

Bank Islam is committed to working on corporate social responsibility projects, too. The bank actively contributes towards elevating the livelihood and well-being of the communities in the areas in which it operates. The efforts of the bank in supporting the well-being of the local community are best exemplified by the bank’s annual “Project Bantuan Rumah Bank Islam” (Bank Islam’s Home Rehabilitation Project). This initiative is targeted towards providing proper living conditions for marginalised Malaysians and was put in place in 2008. To date, more than 130 houses have either been built or renovated throughout the country through the project – with a total cost exceeding RM4 million (about US $1.2 million). Bank Islam plans to continue with this effort over the foreseeable future. It also continues to support the initiatives of the PINTAR Foundation, which aims to promote academic and non-academic excellence, especially among the poor and underprivileged students. PINTAR is a School Adoption Programme set up by several Malaysian government-linked companies. Since 2008, the bank has spent approximately RM1.5 million (US $460,000) on this project, enriching the learning experiences of the students of its 13 adopted schools. One of the initiatives includes the “Zero-to-Hero” programme, designed to reduce illiteracy and support the national drive to improve the quality of education. Under this programme, the bank has helped many children with dyslexia, Attention Deficit Hyperactivity Disorder (ADHD) and learning disabilities to master the skills of reading and writing. Additionally, the bank has also entered a collaboration project with The News Straits Times, one of the country’s major newspapers, in organising “School Garden Projects” as part of the PINTAR Foundation initiatives. An effort to raise environmental awareness among participating students by creating gardens, the project was intended to impart knowledge on sustainable living and allow them to assess the impact of human activities on plant life.

Being the flag-bearer of Islamic banking in Malaysia, Bank Islam believes in “Giving Back to the Islamic Finance Industry”. The bank prides itself on becoming a source of reference for Shariah-based banking and finance. It has been instrumental in the rapid development of the Islamic banking and financial industry inside and
outside the country. In the past, Bank Islam has worked towards establishing and developing Islamic banks in new jurisdictions. It has received delegations from countries such as Nigeria, Oman and Indonesia, and shared its practical knowledge and experience, assisting them in setting up Islamic banks and forming the required respective frameworks.

**Outlook**

Islamic banking is forecast for continued growth over the upcoming years. However, financial prospects and needs of customers have recently become more volatile, giving rise to growing global dimensions for Islamic banks: entering new markets, optimizing operations across borders, finding the right differentiation and seeking skills and funding from the global pools of talent and capital. For Malaysia in particular, Islamic banking faces several challenges to its viability and growth in the foreseeable future, such as fierce competition, regulatory compliance and requirements of stricter Shariah adherence.

As market dynamics are changing, Malaysia recognises the need for Islamic banks to improve their strategic positioning and operational efficiency. Size, for one, will be a key issue, with consolidation among banks becoming more imperative moving forward. Consolidation could lead to improved efficiency and greater competition. Another area of consideration is the potential public listings of Islamic banks on the local bourse, thereby creating a platform for a new class of assets to be available, one that is Shariah compliant. A listed Islamic bank will be the first of its kind, not only locally but globally, and it will serve many purposes – for example, it will enable fund-managers from all over the world to participate in Shariah compliant banking stocks. Moreover, as demand grows over the next few years, it will be important that Islamic finance is better understood and initiatives must be put in place to drive education and promote awareness of Islamic finance services for Muslims and non-Muslims.

For Bank Islam, these challenges reinforce the significance of educating the public on Islamic finance. “Enhancing Shariah Capabilities”, one of the main thrusts of the bank’s latest 3-year Corporate Master Plan (Hijrah to Excellence (H2E) 2013-2015), aims to develop resources and infrastructure to ensure it continues as a Centre of Reference for Islamic banking and eventually becomes a “Knowledge Centre” for applied Islamic finance through the establishment of a “Shariah Centre of Excellence”. Similarly, the implementation of IFSA 2013 is aligned to the bank’s view of promoting inclusiveness in the financial system and differentiating Islamic finance through responsible banking. Equally important is the shift towards strong customer orientation, which is crucial for Bank Islam, especially in the wake of intense competition and high customer expectations. «