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## Boost for Islamic banking

THE Prime Minister's call for Islamic countries to start seeking a consensus on matters pertaining to Islamic banking and finance should be given serious thought. Follow-through action must be taken and taken soon, and if other countries are hesitant Malaysia must take the lead. For as Datuk Seri Dr Mahathir Mohamad said, there have been doubts about whether Islamic banking in Malaysia and other countries really conform with Islamic laws. Some said the doubts were cast by those driven by "politics of envy" but then, going by Islamic principles, all doubts must be cleared in the path of the devout.

Failure to answer the critics and help clear the doubts could lead to serious consequences. In Egypt where there are three Islamic banks, the Egyptian media has been on the attack claiming that Islamic banks were taking advantage of people's religious convictions to amass wealth. At the World Islamic Banking Summit in Kuala Lumpur last September and again at a two-day fund managers' meeting on Islamic banking last month, questions were raised about Malaysia's own Islamic banking operations. Although nobody was attacking the Islamic banking operations in this country, steps must be taken to ensure that Islamic banking in general is explained before anymore obstacles are thrown in its way.

Malaysia is keen to ensure that Islamic banking operations do not fail. Although it has only one Islamic bank - Bank Islam Malaysia Bhd - 49 financial institutions throughout the country are already offering the interest-free banking scheme the Government introduced in 1993, 10 years after Bank Islam was set up. Total deposits mobilised under Malaysia's Islamic banking system last year rose 47.5 per cent to RM7.3 billion while financing increased by 75.9 per cent to RM6.1 billion. The authorities have successfully extended the principles of Islamic banking into insurance, pawn-broking and other related financial activities. The Labuan International Offshore Financial Centre is expected to carve a niche in Islamic banking instruments. Bank Negara Malaysia, meanwhile, is in the final stages of establishing a Syariah Advisory Council, which will act as the sole authoritative body to advise the central bank on Islamic banking and finance. Even on the Kuala Lumpur Stock Exchange, there is an Islamic index comprising some 300 companies.

Islamic banking and finance in Malaysia has operated well in parallel with conventional banking and is accepted by not only Muslims but non-Muslims as well. Companies from the West borrowed from the Islamic bank in Malaysia. But there is more at stake here than just the Malaysian Islamic banking operations. Worldwide, according to a Dubai-based Islamic journal, the funds of Islamic financial institutions stand at some US\$152 billion (US\$1 = RM2.50). If Islamic countries can work together and ensure a systematic approach, these institutions can only grow and strengthen. Certainly, it will not be too long before Islamic banking and financial instruments become an alternative to conventional instruments.

The Finance Ministry has already identified some weaknesses in Islamic banking that need to be improved. These include limitations on interest-free banking units in undertaking functions; small allocated budgets; lack of coordination between units in participating banks; shortage of personnel familiar with Islamic banking; and lack of innovation in financing products. Experts have also identified the two opposing sides within the Islamic banking operations - on the one hand, those who are

anxious and determined that Islamic banking advance through innovative products and marketing; and, on the other, those who prefer to argue every step to ensure every move is "correct". What needs to be done now is for the authorities in Islamic countries to sit down and come to a consensus. Dr Mahathir has said that Islamic banking should not be so restricted that it fails altogether. If Islamic countries do not take the lead and do something about it, the West will certainly not.

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