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A DETERMINANT OF ISLAMIC BANKING COMPETITIVENESS:  
A STUDY IN LFSA

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# The determinant of Islamic Banking Competitiveness: A study in LFSA

## Chapter 1

### 1.1 Introduction

Islamic bank is similar to the conventional bank by which it performs the same function like lending and others, except that Islamic bank need to operate transaction accordance to the principles of Islam (Henry and Wilson, 2004; Iqbal and Mirakhor, 2007). Shariah which is Islamic law is the guidance for this Islamic Banking which prohibits business that related to sin such as gambling and alcohol. Moreover, riba (interest) and gharar (uncertainty) is also prohibited in this industry (Khan and Khanna, 2010). The main prohibitions on interest banking are because general belief that to earn income without assuming risk is not fair (Siddiqui, 2001). Based on history, Islamic Banking establishes its name due to customer which wants to invest their money in accordance to religious belief (Devlin, 2002).

Therefore, it is the objective of Islamic banking that they do not want to be considered as a business entity established not only to satisfy the religious obligations of the Muslim community anymore.

The term “offshore financial centre” is easiest explained by exploring the notion of “onshore” banking which describes “those nations that do not engage in offshore activity” (Antoine, 2002). Dowling (2004) refers to “offshore” as a “qualitative term” which defines those investments located only in foreign jurisdictions.

It is once been argued that offshore financial centres (OFCs) and in this study it is interchangeably used as LFSA have played an important role in shaping the economies and

## 1.2 Problem statement

Labuan was declared as an IOFC by the Malaysian Government in 1990, with the goal of developing it as a financial “supermarket” offering a wide range of offshore financial products specializing in Islamic finance. However, it is suggested that the government’s commitment (Abbott, 1999; Skully, 1995), and years of experience in domestic Islamic banking (Ahmad and Kefeli, 2002; BNM, 2002; Ahmad and Haron, 2002; Shariff and Mahmood, 2000), and Sharia-compliance alone is not be enough to guarantee the success of an international Islamic financial center. A current study is focusing on the acceptance and perception on Islamic Banking. However a very limited study has done on looking at the competitiveness of Islamic Banking especially in LFSA. Whereas public and the government know that Labuan is highly potential in attracting foreign industry. Therefore, the purpose for this paper is to focus on the determinant of Islamic Banking competitiveness.