

**Final Research Report
On**

**Determinations Of The Financial Strategy
Of Malaysian Banks Which Practise
Interest Free Schemes. Case Study:
Bank Islam Malaysia Berhad (BIMB)**

**Presented to,
Research and Consultancy Centre
Institut Teknologi Mara
40450 Shah Alam
Selangor
Malaysia**

Oktober 1995

Project Team

1. **Project leader** : 
School : Accounting ITM Melaka
Qualification : Master Economics (Accounting) Macquarie University Sydney, Australia
Experience : Accounting Lecturer
2. **Member** : 
School : Business and Management ITM Melaka
Qualification : MBA (Marketing) Stirling University, Scotland.
Experience : Management, Marketing and Finance Lecturer
3. **Member** : 
School : Business and Management ITM Melaka
Qualification : Master of Economics International Islamic University Malaysia.
Experience : Economics Lecturer

Abstract

This study examines the importance of Islamic banks in Malaysia as an institution which offers interest-free scheme. The study revealed that there are interactions between environmental determinants and financial strategies of Bank Islam Malaysia Berhad (BIMB). The model proved that before the adoption of the interest-free scheme by conventional banks in Malaysia, BIMB enjoyed high strategic choice and low environmental determinism. However, at the early stage of the adoption of interest-free scheme, BIMB faced high environmental determinism and low strategic choice. When all the conventional banks in Malaysia adopted interest-free scheme as one of their products, BIMB faced high environmental determinism and high strategic choice.

CONTENTS	PAGE
1.0 INTRODUCTION	1 - 4
2.0 INTEREST-FREE BANKING SCHEME	
2.1 Overview	4 - 9
3.0 CASE STUDIES BANK ISLAM MALAYSIA BERHAD (BIMB)	
3.1 BIMB Corporate Objective	9 - 10
3.2 Capital Structure of Islamic Bank	10
3.3 Shareholders' Funds	10
3.4 Saving Deposit	11
3.5 Current Deposit	11
3.6 Investment Deposit (Investment Accounts)	12
4.0 BANK ISLAM MALAYSIA BERHAD (BIMB) THE 1993 - 1994 PERIOD	12 - 15
4.1 1988 - 1992	16 - 17
5.0 ENVIRONMENT AND STRATEGY	
5.1 An Overview	17 - 22
6.0 RESEARCH METHODOLOGY	22 - 23
6.1 The Variable of Environment	23 - 24
6.2 The Variable of Strategy	24
7.0 ANALYSIS OF THE CASE STUDIES AND RESEARCH FINDINGS	
7.1 The 1988 - 1992 Period	25 - 27
7.2 The 1993 - 1994 Period	27 - 29
7.3 Research Findings	29 - 31
8.0 CONCLUDING REMARKS	31 - 32

1.0 INTRODUCTION

The concept of Islamic Banking on the basis of profit sharing was initially developed under the explicit assumption of a general prohibition of interest - which was widely accepted as one form of 'riba' and strictly prohibited in Islam.

Islamic financial institution in Malaysia started in the 1980s, where some institutions were established with the main objective to cater the banking needs of Muslims wishing to conduct their banking business in accordance with the principles of Shariah. Such institutions are Bank Islam Malaysia Berhad (BIMB), Pilgrims Management and Fund Board or Tabung Haji, Malaysian Islamic Economic Development Foundation (YAPEIM), and Syarikat Takaful Malaysia Sdn. Bhd. (STMSB).

However these institutions are inadequate to cater the financial needs of the majority Muslim population (53 percent of the total population) according to the dictates of Islam.

Actions have to be taken for Islamisation of the conventional financial institutions, upgrading of the existing Islamic institutions and establishment of new Islamic financial institutions are necessary due to the prohibition of riba (interest). The conventional system may not be acceptable for long amongst the Malaysian Muslim due to the distinct Islamic perspective on economic development characterised by