



**A STUDY ON THE FACTORS INFLUENCE GROWTH OF ISLAMIC  
BANKING AND FINANCE PRODUCTS IN MALAYSIA**

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## DECLARATION OF ORIGINAL WORK



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**“DECLARATION OF ORIGINAL WORK”**

I, **NURHAFIZA BINTI MOHD NASRI**, (I/C NUMBER: **880926-12-6052**)

Hereby, declare that,

- This work has not previously been accepted in substance for any degree, locally or overseas and is not being concurrently submitted for this degree or any other degrees.
- This project paper is the result of my independent work and investigations, except where otherwise stated.
- All verbatim extract have been distinguished by quotation marks and sources of my information have been specifically acknowledgement.

Signature: \_\_\_\_\_

Date: \_\_\_\_\_

## **CHAPTER ONE**

### **INTRODUCTION**

#### **1.1 Background of the study**

Islamic banking could be referring to as the banking system that is in line with the shariah principles or Islamic law and through the development of Islamic economics; it is suitable and practical to be applied in day to day business activities. It is well known that, shariah principles was strongly prohibited the usage of Riba which is payment or acceptance of interest fees for loans of money as contradict with the conventional system.

While, the science of fund management was to explain the term finance itself. Saving and lending of money sometimes could be related to finance it.

To facilitate the lending, borrowing and investment functions under the Islamic finance was based on the risk –sharing basis. Thus, it has allows market forces to determine the productivity of capital rather than put it in priority as an ‘interest rate’ to encourage the speculative use and hoarding of capital and to sabotage the free market mechanism. The Islamic financial system leads to a sustainable economic growth and fair opportunities for all as its ensures the efficient utilization and optimal rate of capital formulation. Almost four decades old the Islamic banking and finance field. In late 1940s, Islamic banking starts to develop and in the next two decades, they turn into a model point of yielding which was adopted in the Middle Eastern countries to fulfill their own needs of having their own banks. Some of reputable Islamic banks that came into the 1970s were Islamic Development Bank (IDB) (1975), Dubai Islamic Bank (1975) and Kuwait Finance House (KFH) (1977). In

1980s, the Islamic banking sector surprise the world as three Muslim countries had decided to adapted and transform their economies and financial sector into Islamic point of view, which is Iran, Pakistan and Sudan. While the other Western financial market such as Citibank, HSBC and others has established their own Islamic section or windows to attract others depositors from Middle East and Muslim customers in local markets.

By diversifying and continuously improve the products such as Sukuk, Takaful, hedging funds, Mutual funds, private equity and assets management, wealth management, real estate, corporate finance, liquidity management, treasury, derivatives, swaps, future and forward market, Islamic Stock Exchange and Dow Jones Islamic Index is a mechanism or tools used by Islamic banking and finance continuously grows.

As we are in the 20<sup>th</sup> century, the purpose of this research was to find out how far thus the Islamic banking and finance products has develop in Malaysia as it is well accepted not to Muslim itself but also to other races as well. As to conduct this research, it is hope that the Islamic banking and finance products could be well known and developed to all and efficiently adopted in Malaysia banking sectors.

## 1.2 Problem Statement

Islamic banking and finance is an emerging global industry founded on Islamic ethical precepts. Just as in the case of conventional banks, Islamic banks are expected to offer products that consider the needs of their customers.

Given the growth in demand for Islamic banking services and products amongst bank customers, there is a growing debate and differing viewpoints about their nature, and the extent to which they are different from products provided by conventional financial institutions. Some Islamic products are similar to those provided by conventional institutions, but others are different (***Fouad H.Al-Salem, 2009***).

Previous research by (***M.Mansoor Khan and M.Ishaq Bhatti, 2008***) has been done on which it focuses was to highlight the unprecedented growth of Islamic banking and finance in the contemporary finance world. It captures the advancements of Islamic banking and finance industry across the tools,systems,sectors,markets and over 75 countries from Africa, Asia, Europe and North America.

The basic purpose of this research was to study the factors that influence the growth of Islamic banking and finance products in this 20<sup>th</sup> century.