



**THE DIFFERENCE BETWEEN ISLAMIC PROFIT  
RATE AND CONVENTIONAL INTEREST RATE IN  
TERM OF FIXED DEPOSIT: THE STUDY ON  
MALAYSIA LOCAL BANKS PRODUCTS.**

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## **DECLARATION OF ORIGINAL WORK**



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**I, MUHAMMAD AFIQ BIN IZALDIN with Student's ID Number 2010706411 and IC Number 890122-43-5203, hereby declare that:**

- 1. 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.**
- 2. This project paper is the result of my independent work and investigation, except where otherwise stated.**
- 3. All verbatim extract have been distinguish by quotation marks and sources of my information have been specifically acknowledged.**

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## **CHAPTER 1: INTRODUCTION**

### **1.1: BACKKGROUND OF THE STUDIES**

Saving is one of the ways to secure wealth from any catastrophic or bad things happen. One of the ways is put a wealth to someone that can be trusted and ensure the safety of the wealth. These acts are called deposit. In simple term, deposit means putting wealth to someone else for safe keeping. As the time goes by, the deposit evolved from keeping the wealth safe into making more wealth from the wealth that has been kept for safety, known as fixed deposit or time deposit. In other words, fixed deposit is when the money deposit into the bank institutions for certain time and cannot be withdrawn until maturity date unless the penalty has been paid. After the maturity date, the money can be withdrawn or can continue for another maturity date.

At present, the analysts and customers instinctively want to compare the performance and the pricing between the Islamic and conventional banking system (Erusan & Ibrahim, 2007). The main reason that comparisons are made to find the best or the one that can give most benefits towards them. The best ways to understand this situation is by comparing Malaysia banking system. That is because the Malaysia has practiced a dual banking system where Islamic banking system operates side-by-side with a conventional one (Erusan & Ibrahim, 2007). Meaning that the conventional bank also provides the Islamic banking product offered to the customer.

The Islamic banking has the same purpose and operations as conventional banking. However, the Islamic banking refers to a banking system activities that operate within the Shariah guideline (ISRA, 2012). In other words the Islamic banking aims are to maximize profits same as the conventional banking but must be in line with the Shariah. The Islamic banking is Malaysia started operating in July 1983 after the introduction and enforcement of two new acts known as Islamic Banking Act and Government Investment Act (Yusoff & Wilson, 2009). However, the earliest Islamic banking in malaysia could be traced back to September 1963 when Perbadanan Wang Simpanan Bakal-Bakal Haji (PWSBH) was set up for the purpose of Muslim to save money for their Haj expenses. In 1969, PWSBH merged with Pejabat Urusan Haji to form Lembaga Urusan dan Tabung Haji and now, it is recognized as Lembaga Tabung Haji (Erusan & Ibrahim, 2007).

The aim of this research is to examine the differences between Islamic banking profit rate and conventional banking interest rate in fixed deposit from the year 2008 until 2011, and between Bank Rakyat Malaysia and Malayan Bank Berhad. The main purpose of the research is to find the significant difference between Islamic profit rate and conventional interest rate for both banks.

## **1.2: BACKGROUND OF THE COMPANY**

### **1.2.1: Bank Kerjasama Rakyat (M) Berhad**

Bank Rakyat was established in September 1954 under the Cooperative Ordinance 1948, following an expansion of the cooperative movement in Peninsular Malaysia. The objective of the bank is to facilitate the expansion of the cooperative movement, the co-operatives set up their respective union banks provide financial needs to their members.

The bank history started on 28 September 1954, when 11 of these union banks decided to merge and form Bank Agong (Apex Bank). In 1967, Bank Kerjasama Malaysia Berhad replaced Bank Agong with its membership opened not only to the cooperatives, but also to individuals. Subsequent changes in the by-laws also resulted in the creation of its subsidiary companies and opening of branches to serve customers as well as members. On 6 January 1973, the name was changed to Bank Kerjasama Rakyat Malaysia Berhad or better known as Bank Rakyat. Bank Rakyat is governed by its bylaws and Bank Kerjasama Rakyat (M) Berhad Act 1978 (Special Provision 202), which allows Bank Rakyat to provide financing to non-members. In 1989, Bank Rakyat was placed under the Ministry of Land and Co-operative Development and the Ministry of Finance. In 1993, the Cooperative Act was reviewed which allows the Bank to operate in Sabah and Sarawak.

On 8 May 1993, Bank Rakyat took a giant step towards becoming a Shariah co-operative bank by introducing Islamic banking products at four of its branches. Bank Rakyat became a full-fledged Islamic cooperative bank in 2002. Hence, with this major decision, Bank Rakyat marked another milestone in history where it became the third bank to offer total Islamic banking products in Malaysia.

On 15 February 2002, Bank Rakyat together with six other financial and development institutions was placed directly under the supervision of Bank Negara Malaysia (Central Bank of Malaysia) under the Development of Financial Institution Act (DFIA). On 27 March 2004, Bank Rakyat was placed under the supervision of the Ministry of Entrepreneur and Cooperative

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