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THE CHALLENGES OF BANK MUAMALAT AS AN ISLAMIC BANK

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ABSTRACT

Bank Muamalat Malaysia Berhad started its operations on October 1, 1999 with assets and liabilities brought over from Islamic banking windows of the then Bank Bumiputra Malaysia Berhad, Bank of Commerce (M) Berhad and BBMB Kewangan. Bank Muamalat Malaysia Berhad, the second full-fledge Islamic bank to be established after Bank Islam Malaysia Berhad, is poised to play its role in providing Islamic banking and services, irrespective of race or religious beliefs, thus contributing development of modern Malaysia. The bank is to operate on the Syariah principles which provides products and services to a wide range of customers.

Therefore, this study is to determine the customers' awareness and acceptance of the bank's products and services as an Islamic bank; to determine the customers' satisfaction toward services given by the bank's staffs; and to explore the customers' preferences towards Islamic banking as an alternative to the conventional banking.

For this study, the data is collected by using questionnaires and personal interview through Descriptive Research Design whereby to ascertain and describe the characteristics of various variables in a situation.

The findings showed that the Malays constituted the most percentage in the awareness of an Islamic bank. The source of awareness come mostly through major newspapers, internet and the bank's brochures. However, the customers are still lacking in knowledge about the products and services in the marketplace.

In this circumstances, the bank should play a vital role in the retail and consumer products and services to cater to the domestic demands of its customers through its network of local branches. In addition, the bank should put more effort in educating the public about the products and services. Nowadays, Islamic banking is faced with a far greater challenge in which it must be competitive not only within itself but also with the conventional financial system.

CHAPTER ONE

INTRODUCTION

1.1 Introduction

1.1.2 Background and Scope of Study

Islamic Banking took off globally with the introduction of the Islamic Development in 1970. In 1974, the Islamic Bank of Dubai became the first to launch Islamic Banking followed by many financial institutions in Muslim countries. The Dubai Islamic Bank is considered to be the first modern, non-governmental, Islamic bank. Similar banks sprouted throughout the Islamic world: the Kuwait Finance House (1977), the Faisal Islamic Bank of Egypt (1977), the Islamic Bank of Sudan (1977), the Jordan Islamic Bank for Finance and Investment (1978), the Bahrain Islamic Bank (1978), and the International Islamic Bank for Investment and Development in Egypt (1980). The development in the Islamic Finance was further strengthened when The National Committee on Islamic Bank was established in July 1980 culminating in the establishment of Bank Islam Malaysia Berhad in 1983. In order to strengthen the financial sector during the economic crisis, the Government had embarked on a gigantic task of merging smaller banks into 10 core banks that it would give strength to this sector. The first merger was Bumiputra Bank Malaysia Berhad and Bank of Commerce (M) Berhad, which resulted in Bank Muamalat Malaysia Berhad, operate on the shariah principles.

1.1.3 Background of Bank Muamalat Malaysia Berhad

Bank Muamalat Malaysia Berhad started its operations on October 1, 1999 with assets and liabilities brought over from the Islamic banking windows (Interest-Free Banking Scheme) of the then Bank Bumiputra Malaysia Berhad, Bank of Commerce (M) Berhad and BBMB Kewangan.

Bank Muamalat Malaysia Berhad, the second full-fledge Islamic bank to be established after Bank Islam Malaysia Berhad, is poised to play its role in providing Islamic banking and services to

CHAPTER TWO

LITERATURE REVIEW

2. Literature Review

The history of Islamic banking began from the early days of Islam. The most important event which later shaped the practices of banking in Islam were the revelations which prohibited Muslims from dealing with “riba”. In addition to these revelations, the prophet on many occasions condemned the “taker and giver” of “riba” that is usury. There is also evidence that today’s banking activities such as money-exchange businesses, remittance services and the usage of cheques have been in existence during the early Islamic civilization. Since Islam prohibits interest, it is obvious that the elimination of interest from the economic and banking system became top priority among Muslim scholars. The establishment of Mit Ghamr Local Savings Bank in 1963 marked a new milestone in the revolution of the modern Islamic banking system. This bank was considered to be the most innovative and successful experiment with interest-free banking. Located in the Nile Delta, Egypt, the Mit Ghamr Local Savings Bank provided banking services such as deposit accounts, equity participation, direct investment and social services. Although these services are considered basic banking services, it was nevertheless sufficient to meet the banking needs of the surrounding community. Besides its ability to prevent customers from going to money-lenders for financial assistance, this bank was able to instill a sense of belonging among its customers. One of the most important contributions made by this bank to Islamic banking history was that it proved to the Muslim community that there was an alternative to the conventional banking system.