UNIVERSITI TEKNOLOGI MARA

CUSTOMERS AWARENESS OF FINANCING THROUGH ISLAMIC BANKING SCHEME

A CASE STUDY AT MAYBAN FINANCE, SARIKEI BRANCH

AWANG ISMAIL BIN AWANG MADIAN

BACHELOR OF BUSINESS ADMINISTRATION (HONOURS)(FINANCE)
FACULTY OF BUSINESS AND MANAGEMENT
MARA UNIVERSITY OF TECHNOLOGY
KOTA SAMARAHAN, SARAWAK

MARCH 2002

ABSTRACT

The main objective of Islamic banking in Malaysia is to provide banking facilities and services in accordance with Islamic principles to all Muslims as well as the population of this country. There is no doubt that Islamic banking has served as an alternative to the Muslims and all other Malaysian citizens who wish to avoid any interest-based financing system in the country. The introduction of *Interest Free Banking Scheme (SPTF)* in 1993 or latter known as *Islamic Banking Scheme (SPI)* has proved to be the most effective mechanism to disseminate Islamic banking on a nationwide basis with as many players as possible and within the shortest period possible.

Mayban Finance Berhad through its parent company Malayan Banking Berhad, one of the three commercial banks selected as pilot basis to introduce SPTF in 1993 has proved that implementation of Islamic banking is possible in our banking system. Today our Islamic banking is recognised to be the best Islamic banking system throughout the world.

But when focusing on the small branch level of Mayban Finance, the development seems to be unimpressive as in the case of Sarikei branch in this study. Even though the growth of overall Islamic banking have shown an increasing pace, the banking system now seems to be more towards depositing money rather than for financing purposes.

Through this study, it is found that ineffective promotion has been the main reason behind the scene, though the government has been seriously setting up campaign like

TABLE OF CONTENTS

Chapter 1

INTRODUCTION

1.1 Background

Islamic banking provides services to its customers free from interest. Islam bans Muslims from taking or giving interest known as *riba* in all transaction, and this prohibition makes an Islamic banking system differ from a conventional banking. It is possible, that investment in Islamic financial institutions can provide potential profit in proportion to the risk assumed to satisfy the differing demands of participants in the contemporary environment and within the guidelines of the *Syariah*.

For millions of Muslims, banks are institutions to be avoided. Their Islamic beliefs prevent them from dealings that involve usury or interest (*riba*). Yet Muslims need banking services as much as anyone and for many purposes: to finance new business ventures, to buy a house, to buy a car, to facilitate capital investment, to undertake trading activities, and to offer a safe place for savings. For Muslims are not averse to legitimate profit as Islam encourages people to use money to make investment, not just to keep their funds idle.

Islamic banks are structured to retain a clearly differentiated status between shareholders' capital and clients' deposits in order to ensure correct profit sharing according to Islamic Law. Islamic banking has emerged as a new reality in the international financial scene. Its philosophies and principles are

Chapter 2

LITERATURE REVIEW

2.1 Interest

In the conventional economic system, interest is the price or rental for the use of money. It is defines as the excess of money paid by the borrower to the lender over and above the principal for the use of the lender's liquid money over a certain period of time. Interest plays a very important role as a source of income in modern conventional banks.

Equilibrium interest rate in the *Classical theory (Loanable Fund Theory)* was the rate at which the amount of funds that individuals desired to lend was just equal to amount others desired to borrow where as in *Keynesian theory (Liquidity Preference Theory),* quantity of money played a key role in determining the rate of interest. The Classical theory stated that the interest rate is merely the price of credit and is, therefore determined but the demand and supply credit. Investment opportunities, total savings and bank credit influence the demand and supply of loanable funds respectively. This theory has set a draw back to investment and business opportunities. Any increase in interest rate may increase the cost of financing that will reduce the investment and business opportunities.

Sattar (1993) claimed that the interest-based system has dampened the investment activities because it adds to the cost of investment. If interest rates