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CAMEL ANALYSIS OF ISLAMIC BANKING AND CONVENTIONAL BANKING IN MALAYSIA

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ABSTRACT

This study examines the financial performance of Bank Islam Malaysia Berhad (BIMB) over the period 2007 to 2011 and makes comparative assessment in terms of an interest free Islamic bank (BIMB) and Malayan Banking Berhad (Maybank), an interest-based conventional commercial bank. The financial performance of these banks is measured by using the CAMEL model. The findings revealed that in terms of capital adequacy and liquidity, BIMB's performance is above Maybank. In this regard, this study presents some policy implications that are relevant to the conduct of Islamic banks in managing liquidity. Meanwhile, asset quality, management capability and earnings are on par with Maybank. In terms of business volume, namely total deposits; total loans and financing; total assets; and total shareholders' equity, BIMB is far below that of Maybank. All of the above verify that age in terms of duration of banking business and extent of financial landscape are in favor of the conventional banking system. Given time, the Islamic banking business will gradually be on level playing ground with their conventional counterpart as desired by the Malaysian government for the two systems to run and develop in parallel to each other.
Keywords: Islamic banking, conventional banking, CAMEL, financial performance, liquidity

INTRODUCTION

In Malaysia, Islamic banking has made steady progress since the establishment of the first Islamic bank. In terms of performance relative to the banking system, Islamic banking has been on progressive upward trend, recording an average annual growth of 48.5 per cent in terms of assets over the period 2006-2009. The Islamic banking sector continued to register a strong asset growth of 12.8 percent as at November 2010 to RM 256.6 billion while deposits and financing have increased to RM 211.4 billion and RM 160.1 billion respectively. The delivery channels have also improved significantly as there are more than 2,200 branches of Islamic banks and Islamic banking subsidiary banks offering Islamic banking products and services. Islamic banking has also spurred efforts by other non-bank financial intermediaries such as the development financial institutions, savings institutions and housing credit institutions to introduce Islamic schemes and institutions to meet their customer demands. Bank Islam Malaysia Berhad (BIMB) is the first full-fledged Islamic bank in Malaysia. The important underlying force that led to the establishment of this Islamic bank in Malaysia was the elimination of *riba* that is used for interest. However, as time passed by, many new banks have emerged offering various kinds of financing products, leaving consumers with variety of choices at almost zero switching cost. As at 2010, there are a total of 40 licensed banking institutions in Malaysia.

In view of the increasing intensity of competition, coupled with challenging macroeconomic conditions, it is pertinent to look into the performance of BIMB to see where the bank stands and how it has performed against its competitors. However, there are limited studies as to how BIMB has performed in terms of capital adequacy, liquidity, asset quality, management quality and earnings ability, particularly for the period after 2000. The previous studies on profitability and other measures as conducted by Samad (1998), Ariff (1989), Dirrar (1996), Mohiuddin (1991), Sum (1995) and Hassan (1999) are far from satisfactory. No statistical techniques were used in those studies, nor were there any inter-bank comparisons made. Many are skeptical about Islamic banks' performance as compared to conventional banks. First of all, Islamic banks are required to comply with both conventional business laws and also with the Islamic laws. Secondly, there are no differences between the Islamic and conventional banking system. The main questions, does performance of Islamic banks are on par, below or above the conventional banks, and is there

any difference between the performances of both systems. Hence this study will focus on financial comparison between Bank Islam Malaysia Berhad (BIMB) and Maybank Berhad (MBB).

The CAMEL assessment model is commonly used for the evaluation of performance and ranking. This model assesses the performance of banks based on capital adequacy, asset quality, management quality, earning ability and liquidity considerations. It is used as an internal instrument to measure risk and allocate resources, and to determine the bank's overall condition by identifying its strengths and weaknesses based on financial characteristics, operational characteristics and managerial characteristics. This is to determine whether Islamic banking is really a viable business or they are just following the government's initiative to promote Malaysia as the hub for Islamic finance in the region. The objective of this paper is to examine the financial performance of BIMB over the period 2007 to 2011 and make comparative assessments of Malaysia's interest free Islamic bank (BIMB) and the interest-based conventional commercial bank. The financial performance of banks is measured based on criteria such as capital adequacy, liquidity, asset quality, management quality and earning ability of the bank. The choice of this particular focus is justified by the fact that Malaysia has experienced a significant increase in the number of Islamic banking activities, evidenced by a high growth rate of Islamic assets. Hence, this study is different from earlier studies with respect to content, coverage of years and methodology. This paper is organized into five sections. Following are introduction and rational of this study in this section, Section II provides the literature review while Section III details out the methodology, data and the tools for measuring banks' performances. Section IV discusses empirical evidence and analysis and Section V delivers the conclusion.

REVIEW OF LITERATURE

The remarkable development of the Islamic banking sector throughout the world calls for an analysis of the degree of performance of Islamic banks. While performance evaluation is the key to sustainable growth and development of any organization, it ensures that performance improvement initiative ties in with the organization's vision, mission, and value. According to Samad A. and Hassan (1998), evaluation of a bank's performance is important for all of its stakeholders, i.e., depositors, bank managers and regulators. For example, in a competitive financial market, bank performance provides signals to depositors-investors on whether to invest or withdraw funds from the bank. Similarly, it provides directions to bank managers on whether to improve its deposit service or loan service or both, to improve its financial position. Regulators around the world will also use analysis of bank performance for its regulation purposes and to monitor developments or any pertinent issues to preserve banking system stability and the financial system as a whole. The extent of the literature on Islamic banking can be divided into theoretical and empirical dimensions. The earliest work dealt with the potential of Islamic banking (Mannan, 1968; Siddiqui, 1983; Ahmad, 1984; Iqbal and Mirakhor, 1987; Khan, 1987; Ahmad, 1987, Zineldin, 1990; and Saeed, 1996). These authors discussed a wide range of institutional issues including concepts and principles that are subjected to interpretation. Haron and Shanmugam (1997) comprehensively documented the workings of the *Shariah* or Islamic laws in the Islamic banking system in various Muslim countries, such as Egypt, Iran, Malaysia, Pakistan, Sudan, and Turkey. They also elaborated the various concepts of Islamic financial products such as *mudharabah*, *musyarakah* and *qard al-hassan* along with the issue of monetary policy. They advocated *mudharabah*-type instruments to replace the current interest-based discount rate as an important tool of monetary policy. Financial instruments used by Islamic banks were examined by Aggarwal et al. (2000), and they found that Islamic banks rarely offer long-term financing to entrepreneurs who seek capital. The majority of the Islamic banks' financial transactions are for retail or trade financing, and their model suggests that it was a rational response for the banks.

Zineldin (1990) examined Islamic banks from the perspectives of theory and practice, and found that Islamic banking is a viable alternative to existing conventional banking. Although few empirical studies are available, Ali (1996) compared the relative efficiency of Islamic banking with conventional banking in Bangladesh. He found that the Islamic banks are relatively more efficient than conventional banks. Kazarian (1993) compared Islamic banking with conventional banking in Egypt, with emphasis on the innovativeness of Islamic banks' financial products. Performance evaluation is an important pre-requisite for sustained growth and development of any situation and in this case, Islamic banking development. It is customary in banks to evaluate the pre-determined goals and objectives, with the changing goals and

objectives, the criteria of evaluation of banks have undergone changes overtime (Hassan, 2007). In general, method analysis of prior studies on examining the financial performance of Islamic banks with ratio analysis can be categorized into two (Widagdo, A.K. et al. 2008), i.e., studies examining the performance of Islamic banks during certain period and studies examine the performance of Islamic banks and compare that with conventional banks' performance. While the former examines performance of Islamic banks during several years and make inter-temporal comparison, the latter studied the performance of Islamic banks and made comparison with conventional banks' performance. In terms of studies that examine the financial performance of Islamic banks over a certain period, Sarker (1999) analyzed efficiency of Islamic banks under conventional banking framework in Bangladesh. Findings showed that Islamic banks could not operate with its full efficiency level if it operated under conventional banking framework. He argued further that Islamic products had different risk characteristics, thus requiring different sets of prudential regulations that are unique to each product. By using a tool called CAMEL-modified, Wibowo and Saptutyningsih (2004) examined the financial performance of two main Islamic banks in Indonesia, i.e., BMI and BSM, between 2000 and 2003. The result revealed that performance of BMI was superior to performance of BSM.

In Malaysia, empirical studies on Malaysian Islamic banking are limited to Bank Islam Malaysia Berhad (BIMB). Arif (1989), Wong (1995), and Samad and Hassan (2000) conducted studies on Bank Islam Malaysia. Arief (1989) examined the financial performance of BIMB and found that, during the first six years of its establishment, BIMB indicated impressive progress. He also suggested that BIMB should institute research and development to serve the Ummah. Similarly, Utami et al. (2006) tried to define the profile of Baitul Maal Wat Tamwil (BMT) in Banyumas Regency based on its financial performance. The result showed that, in most BMTs being surveyed, the level of financial ratio, which included liquidity, solvability, business risk, and productivity of the employee's ratio, increased from the year 2000 until 2002. Efforts have further been made by Zaman and Movassaghi (2001) to gauge and analyze the growth of Islamic banks on a global basis through assessments of financial performance. Islamic banks located in regions including South Asia, Africa, Southeast Asia, Middle Asia, Europe and America were covered. In this study, they ranked the performance of Islamic banks around these regions based on figures extracted from financial statements that ended in year 1996. Findings later showed that Islamic banks located in Middle East and South Asia dominated the rank. In the context of comparative financial performance of Islamic banks and conventional banks, some studies have been done in Malaysia. Samad (1999) evaluated BIMB's productivity and managerial efficiency in the sources and uses of the bank's funds and compared to that of mainstream (conventional) banks. He found that managerial efficiency of conventional banks is higher than BIMB. Productive efficiency of the average fund utilization rate and profit earned by BIMB were also found to be lower than those conventional banks. All profitability indexes indicated lower profits earned by BIMB than the conventional ones. In another study, Samad and Hassan (2000) examined the financial performance of BIMB over the period 1984-19997 and once again compared the findings with the performance of conventional banks in the same period. In this study, inter-temporal and inter-bank approach was adopted. The finding revealed that financial performance of BIMB was different from conventional banks with respect to liquidity and risk management. BIMB was more liquid and therefore exposed to less liquidity risk.

Rosly and Bakar (2003) made further exploration by examining the financial performance of Islamic banking scheme and made comparative analysis with the mainstream banks' performance. The result showed that mainstream banks were more efficient than Islamic banking scheme. Hassan (1999) examined performance of Islamic Bank Bangladesh Limited and compared that with other private banks in Bangladesh between 1993 and 1994. While the duration of study was short, the result revealed that in terms of deposit growth and investment growth, the performance of Islamic Bank Bangladesh Limited was better than performance of private banks. Apart from that, he found that the key Islamic financial products, *mudharabah* and *musyarakah* were not developed. However, due to lack of statistical enquiries, this study was considered unsatisfactory (Samad and Hassan, 2000). In addition to the studies that had been done, Mahmood (2005), by using banks in Pakistan as case study, compared the financial performance of Islamic banking against conventional banking. He found that, almost in all ratios, Islamic banks were superior to conventional banks during the four year period, from 2000 to 2004. Similar studies in other Middle East countries were also conducted, as evidenced in the research of Kader et al. (2007), where comparative

financial performance of Islamic banks and conventional banks in UAE was also examined. The findings indicated that there were no major difference between Islamic banks and conventional banks with respect to profitability and liquidity. In Bahrain context, Samad (2004) examined comparative financial performance of Islamic banks and conventional banks during 1991-2001. The result also indicated that there was no significant difference between Islamic banks and conventional banks with respect to profitability and liquidity.

RESEARCH METHODOLOGY

This study assesses the performance of banks by using the CAMEL model. Based on CAMEL, there are five categories of variables. These categories are Capital Adequacy, Asset Quality, Management Capability, Earnings Ability, and Liquidity, and they are explained below.

Table 1: Ratio to predict the five categories of CAMEL

Element	Ratio	Explanation
Capital Adequacy	Capital / Assets (CAPA)	Total capital as a share of total assets
	Loans / Capital (LOCA)	Total loans as a share of total capital
Asset Quality	Loan / Assets (LOA)	Total loans as a share of total assets
Management Capability	Operating Expenses / Assets (OEA)	Operating expenses as a share of total assets
	Interest Expenses / Deposits (IED)	Interest expenses as a share of total deposits
Earnings	Net Income / Assets (NIA)	Net income as a share of total assets
	Interest Income / Assets (IIA)	Net-interest income as a share of total assets
Liquidity	Liquidity Assets / Assets (LQA)	Total liquid assets as a share of total assets
	Liquid Assets / Deposits (LQD)	Total liquid assets as a share of total deposits

Capital Adequacy

Capital adequacy is to measure of the bank's financial strength. The ratio of total capital as a share of total assets (CAPA) reflects the ability of a bank to absorb the unanticipated losses. The second function of the capital adequacy is total loans as a share of total capital (LOCA). This ratio indicates the resistibility of a bank to loan losses.

Asset Quality

Asset quality indicates the risk level of assets and degree of financial strength within a bank.

Management Capability

Operating expenses as a share of total assets (OEA) and deposit interest expenses as a share of total deposits (IED) are used to predict the capability of management.

Earnings

Earnings provide the means to a bank to expand its funds, maintain its competitive position and increase its capital (or at least stabilize). The first ratio is the net income as a share of total assets (NIA) which is also known as "return on assets" or (ROA). The second measure is the net-interest income as a share of total assets (IAA). Both measures are positively related with the financial performance of the bank and negatively related to the failure of possibility.

Liquidity

Liquidity of a bank can simply be explained as the ability to meet its short-term obligations as well as maintaining it solvency. The first one is total liquid assets to total assets (LQA) which reflects the ability of

the bank to pay off its liabilities. The second ratio that was used to measure liquidity is total liquid assets as a share of total deposits (LQD). This ratio indicates the capacity of the bank to cover unanticipated deposit drains.The data used in this study are compiled from the income statements and balance sheets of BIMB and Maybank from their annual reports each year. Average of five years' ratios from 2007 to 2011 was generated to assess the financial performance of BIMB and Maybank. This study uses the descriptive financial analysis format to describe, measure, compare, and classify the financial situations of both banks, and the t-test (independent samples) to determine whether there are significant differences between the two banks for each of the CAMEL ratios calculated.

EMPIRICAL RESULTS

Table 2: Descriptive statistics of the variables of BIMB

BIMB	N	Range	Minimum	Maximum	Mean	Std. Deviation	Kurtosis	
	Statistics	Statistics	Statistics	Statistics	Statistics	Statistics	Statistics	Std. Error
CAPA	5	.0969	.1039	.2008	.173860	.0399651	4.142	2.000
LOCA	5	4.6453	4.9808	9.6261	6.114240E0	1.9766751	4.723	2.000
LOA	5	.0922	.3515	.4437	.398220	.0412667	-2.656	2.000
OEA	5	.0111	.0166	.0277	.020360	.0042852	3.558	2.000
IED	5	.0102	.0139	.0241	.018500	.0038852	-.026	2.000
NIA	5	.0105	.0058	.0163	.010360	.0043501	-1.245	2.000
IIA	5	.0028	.0281	.0309	.029980	.0011189	2.756	2.000
LQA	5	.2784	.1694	.4478	.309320	.1063605	-.460	2.000
LQD	5	.3153	.1928	.5081	.344620	.1181573	.117	2.000
Valid N (listwise)	5							

Table 3: Descriptive statistics of the variables of Malayan Banking Berhad (Maybank)

MAYBANK	N	Range	Minimum	Maximum	Mean	Std. Deviation	Kurtosis	
	Statistic	Statistic	Statistic	Statistic	Statistic	Statistic	Statistic	Std. Error
CAPA	5	.0118	.0148	.0266	.021720	.0048194	-.634	2.000
LOCA	5	20.4460	20.6401	41.0861	2.878104E1	7.8984736	1.013	2.000
LOA	5	.0629	.5488	.6117	.594980	.0263770	4.134	2.000
OEA	5	.0092	.0087	.0179	.014900	.0036749	2.914	2.000
IED	5	.0265	.0120	.0385	.027300	.0110325	-1.393	2.000
NIA	5	.0103	.0024	.0127	.008800	.0044537	-1.347	2.000
IIA	5	.0131	.0107	.0238	.020600	.0055682	4.752	2.000
LQA	5	.1430	.1010	.2440	.154780	.0550292	1.962	2.000
LQD	5	.2349	.1477	.3826	.229180	.0919013	2.675	2.000
Valid N (listwise)	5							

In Table 4, the results of student's t-test or equality of mean test (t-value) are presented to indicate the probability that both groups are having the same mean. Marion (2004) explained that the larger the t-value

the smaller the probability that the means of the two samples are the same regardless whether t-value is negative or positive. Samad (2004) has also used t-value in explaining the variances of performance of Islamic banks in Bahrain. In this study, the confidence level was set at 95 per cent with degree of freedom of 8. The tabulated t-value of the stated significant level and degree of freedom is equal to 2.3060. Therefore, if the calculated t-value is higher than tabulated t-value, it can be concluded that the difference between the means is significant.

Table 4: T-test results for CAMEL ratios (BIMB versus Maybank)

Ratios	Avg BIMB		Avg Maybank		t-Value
	Mean	Std Deviation	Mean	Std Deviation	
Capital Adequacy					
CAPA	0.1739	0.0400	0.2172	0.0048	8.451
LOCA	6.1142	1.9767	2.8781	7.8985	-6.225
Asset Quality					
LOA	0.3982	0.0413	0.5950	0.0264	-8.983
Management Capability					
OEA	0.0204	0.0043	0.0149	0.0037	2.163
IED	0.0185	0.0039	0.0273	0.0110	-1.682
Earnings					
NIA	0.0104	0.0044	0.0088	0.0045	0.560
IIA	0.0300	0.0011	0.0206	0.0056	3.693
Liquidity					
LQA	0.3093	0.1064	0.1548	0.0550	2.886
LQD	0.3446	0.1182	0.2292	0.0919	1.724

Capital Adequacy

Based on the calculated t-value in Table 4, in terms of capital adequacy as a share of total assets (CAPA), there is a significant difference between the mean ratio of Bank Islam and Maybank as the calculated t-value of 8.451 is higher than tabulated t-value of 2.3060. This shows that almost 22 per cent of Maybank's assets are financed by its capital while for Bank Islam, only 17 per cent of its assets are financed by internal sources. The second ratio to measure capital adequacy is total loans as a share of total capital (LOCA). The result of the t-test for this ratio is contrary to the first ratio. There is no significant difference between the mean ratio of Bank Islam and Maybank as the calculated t-value is less than 2.3060, which is -6.225. This shows that both banks are on par in terms of their resistibility to loan losses.

Asset Quality

Asset quality is determined by one ratio which is total loans as a share of total assets (LOA). Table 4 shows that there is no significant difference between the mean ratio for Bank Islam and Maybank as the t-value calculated is -8.983. The t-test result shows that the total loans of Maybank is larger, which is at 60 per cent as compared to Bank Islam which is only 40 per cent.

Management Capability

The results from Table 4 show that Maybank is more efficient in managing its operating expenses as its mean ratio is lower than Bank Islam's ratio. The second ratio to measure management capability shows that there is no significant difference in the mean ratio of both banks as the calculated t-value (-1.682) is lower than the tabulated t-value (2.3060). Both banks have managed to maintain their interest expense / profit rate (in Bank Islam) in relation to customers' deposits.

Earnings

The earnings of a bank are determined by using two ratios. The first ratio is net income as a share of total assets (NIA) or known as return on asset (ROA), and the second one is net interest income as a share of total assets (IIA). From the t-test result, based on Table 4, there is no significant difference between the mean net income as a share of total assets (NIA), between Bank Islam and Maybank. The second ratio is net interest income as a share of total assets (IIA). From the t-test result, based on Table 4, there is a significant difference between the mean ratios of the banks. Bank Islam recorded a higher percent of interest, in this case profit rate from its business is 3.00 per cent compared to 2.06 per cent of Maybank. This might be due to the nature of Bank Islam that is more selective in providing financing for customers and it gives greater emphasis on the viability of projects rather than credit worthiness of the customers, due to the profit sharing concept (*Mudharabah*) and profit and loss sharing concept (*Musyarakah*) there are being practiced.

Liquidity

Liquidity means that the bank has the ability to meets its short term obligations and maintains its solvency. The first ratio is total liquid assets a share of total assets (LQA) and the second ratio is total liquid assets as a share of total deposits (LQD). According to modern intermediate financial theory, banking institutions exist because of their role in the real economy that is creating liquidity and transferring risks. Analysis on bank's role in creating liquidity and henceforth drive economic growth is a long tradition of theory that was introduced by Smith (1776). The theory was next reincarnated in a more modern form in which the liquidity creation process is centered on the banking institutions. The reincarnation of the theory was so prominent in the formal analysis done by Bryant (1980) and Diamond and Dybvig (1983) which state that the process of liquidity creation by banks are based on the balance sheet of financing relatively illiquid assets with relatively liquid liabilities. In this matter, banks as financial intermediaries will receive fund deposits and then lend the funds to entrepreneurs for the purpose of making a profit to offset the liquidity of assets and liabilities. To meet the liquidity demands of depositors, the bank will usually be allocating a special fund for the purpose of meeting the internal liquidity (Diamiond and Dybvig, 1983). According to Table 4, the calculated t-value is above the tabulated t-value for the LQA ratio. This result is consistent with findings of Samad and Hassan (2000) in which they find that there is a significant difference in the means of the liquidity ratios between Islamic Bank and Conventional Banks. The results show that the mean ratio of liquid asset to total asset for Bank Islam is 31 per cent while for Maybank, it is only 15 per cent. In other words, for every RM 1 of total asset in Bank Islam, there is RM 0.31 of liquid assets, which is higher than in Maybank by more than half. The second ratio used is total liquid asset to deposits (LQD). This ratio shows the capacity of the bank to cover unanticipated deposit drain. Deposit drain is a situation where the withdrawal activity is in large amounts. From Table 4**,** we can see that Bank Islam has higher capacity to cover unanticipated deposit drain as the mean ratio for Bank Islam is at 35 per cent compared to Maybank which is only 23 per cent. This is means that for every RM 1 of customers' deposits taken, Bank Islam affords to cover RM 0.35 of withdrawals made by customers, whereas for Maybank, it can afford to cover RM 0.23 only. This is inevitable as Bank Islam needs to provide guarantee of depositors' deposit and trust. Based on the above findings, below is a summary that provides conclusion on the performance measurement between BIMB and Maybank (Table 5)

Table 5: Performance measurement between BIMB and Maybank

Performance Measurement	Result
Capital Adequacy	Yes
Asset Quality	No
Management Capability	No
Earnings	Yes
Liquidity	Yes

Note:
"Yes" indicates there is a significant difference between Bank Islam and Maybank.
"No" indicates there is no significant difference between Bank Islam and Maybank.

CONCLUSION AND POLICY IMPLICATION

After examining the comparative performance of Bank Islam Malaysia Berhad and Maybank Berhad in terms of business volume i.e., total deposits, total loans and financing, total assets and total shareholders' equity, the results suggest that Maybank has outperformed Bank Islam. However, in terms of the CAMEL model, the results suggest that the performance of Bank Islam varies depending on the variables. Its capital adequacy and liquidity measures are above Maybank, which is a common finding because Bank Islam needs to safeguard its customers' interest plus it is very conservative in its operations coupled with the requirements to strictly follow Islamic laws. This means that the resistibility of Islamic bank to withstand economic downturn of financial crisis is greater than conventional banks. This study presents some policy implications that are relevant for Islamic banks in managing their liquidity. Islamic banks need to determine the purpose and goals of loan applications to be consistent with the "bank's financing policy" so as not to cause any problem in the future. This is important because without a correct and strong purpose, issued financing would be a risk of repayment ambiguities which will affect the liquidity of Islamic banks. Moreover, Islamic banks should ensure adequate, stable and a competitive rate of return to attract the supply of bank deposits. Deposits are the main source for financing and advances to customers. Unstable deposits will affect the activities of Islamic financing of a bank. The gap period of short term deposits and long term funding should also be reduced through appropriate measures.

Meanwhile, asset quality, management capability and earnings are on par with Maybank indicating the viability of Bank Islam's business in the future is as bright as conventional banking. Overall, the results justify that the Islamic banking business in Malaysia is also a viable and profitable business despite *Shariah* restrictions that are imposed on them. In order to improve and sustain the performance of Islamic banks, the following recommendations are suggested for implementation. Firstly, Islamic banks should develop Islamic finance talent pool by enhancing knowledge and expertise of manager where efforts should be focused to promote human capital development to support the increasing demand and growth in *Shariah* compliance products and services. Secondly, they should build and sustain strong management teams. It is important for Islamic banks to build capable and innovative management teams that are committed to Islamic banking and finance by hiring those experienced and qualified staff including expatriates to facilitate transfer of knowledge and expertise. Third is benchmarking initiative. Benchmarking is essential for Islamic banking to be on par with international best practices. Benchmarking initiative will facilitate Islamic banks to evaluate their relative efficiency, identifying the performance gaps and formulating strategies to improve and deliver the best results. Fourthly, using of the latest technology in Islamic finance. In the light of differing Islamic finance concept and workflows, it is important that *Shariah* compliant system be assessed and employed. New leading technology can be utilized to provide for operational efficiency, a wider range of delivery channels as well as helping in reducing cost for consumers and businesses. Lastly, Islamic banks should conduct regular promotional training and seminars as their corporate social responsibility for Islamic banking and finance, and increase public awareness towards the restriction on *riba, gharar, maysir* (gambling) and other uncertainties in conventional products, which at the same time these highlight their advantages.

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