The historical development of modern Islamic banking:
A study in South-east Asia countries

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Accepted 1 November, 2013

Banking system in every country tends to demonstrate unique characteristics. This uniqueness is formed by economic conditions, supervision management, legal structure and social environment of a country. The implication that can be seen is the different evolution phrases and development of the banking system. The same can be said of the Islamic banking growth and development. Initially developed as an industry to fulfill the Muslim religious community needs, it has now become a multi-billion dollar industry. This rapid development spread to every corner of the world including South-East Asia and has received encouraging reaction from the Muslim and non-Muslim communities alike. In this paper, an attempt is made to study the historical development of Islamic banking sector in the selected South-East Asia countries country. Content analysis methodology was applied on this research paper. The historical development was examined from aspects of development, growth and current position in the national banking system of the respective countries. The results show that Islamic banking industry developed and evolved in a number of South-East Asia countries including Brunei, Philippines, Indonesia, Malaysia, Singapore and Thailand. Besides that, in South-East Asian countries, there are formal and no formal Islamic banking activities. However, there are some informal arrangements in these countries for mobilizing financial resources.

Key words: Historical development, Islamic banking and South-east Asia.

INTRODUCTION

The term Southeast Asia is of recent origin. It became popular during World War II, when the territories south of the Tropic of Cancer were placed under Lord Louis Mountbatten’s Southeast Asia command. The command included Sri Lanka, and at least one study covers that Island country along with Southeast Asia because of “similar” experience with Portuguese, Dutch and British colonialism and it is because it is “closely related to the Malay Archipelago” (Stephen and Margaret, 1962). On the other hand, Hall (1968) excluded the Philippines in the first edition of his monumental history of Southeast Asia because that country lays outside the region’s mainstream of historical developments. Most scholars are bounded by the states of Myanmar, Thailand, Malaysia, Singapore, Brunei, Indonesia, Laos, Cambodia, Vietnam and the Philippines. The Southeast Asia region is not a unit in the religious, historical, geographical or ethnic senses. There are at least four different religions in Southeast Asia: Islam, Hinduism, Buddhism and Christianity. Historically, the
In the region never underwent political consolidation as India or China did. Recent colonial history has only helped to
enhance separatist development among Southeast Asia peoples. Five non-Asia powers ruled the region: the
British in Myanmar, Malaysia and Singapore; the Dutch in Indonesia; the French in Laos, Cambodia and Vietnam;
the Americans in the Philippines and Portuguese in East Timor. Only Thailand managed to remain free. The
differing orientations of each of these colonies in the
spheres of administration, education, trade, currency and
shipping, to mention only the most important aspects,
have been responsible for erecting additional barriers
between Southeast Asia people that impede easy and
effective communication among them (SarDesai, 1994).

Although Southeast Asia is a diverse region that is
quite large and many Muslims are not homogeneous, but
the Islamic slavery was strong enough to cross national
borders and ethnic groups. The impact of Islam on the
lives of Muslims varies from country to country, and it
will be difficult to make any generalization in this regard.
Southeast Asia has the largest concentration of Muslims
in the world. Indonesia, Malaysia and Brunei are the
three sovereign nations where Islam is the official religion
and is often referred to as “Islamic countries”. In fact,
Indonesia is the world’s largest Muslim country. Although
none of these countries have a government of “Islam” for
these countries governed by secular lines; more, Islam
has a profound influence; in addition to the three Muslim
countries branded as ‘non-Muslims’. Therefore, in the
Philippines, especially Catholics, there is a large
concentration of Muslims in the south, especially in
Mindanao, and in essence Buddhist Thailand, Muslim
pockets in the South. Much of the Muslim community,
who represent the minority in this land, are the original
Malay, while the remainder is largely original Indo-
Pakistan and East Asia (Paul, 1984).

From the economic aspect, the Southeast Asia
economies are generally growing rapidly according to the
standards of developing countries and developed.
Although there are no concrete empirical evidence to
establish any definitive relationship between Islam as
practiced by Muslims in this part of the world and rates of
economic growth achieved by some countries in the
region, there is no basis to overlook the role of Islam as a
driving force. Muslims, by large has shown that they are
industrious and enterprising, and that their religion Islam
is no barrier to economic prosperity. Moreover there is a
close relationship between trade and Islamic history,
because it is through trade channels, Islam spread far
and wide. Islam does not forbid its followers from
absorbing “foreign” customs and practices that do not
violate basic principles of Islam. In fact, Islam encourages
Muslims to seek knowledge from whatever source. It is
a never-ending process and the careful use of adopted
imaginative that Islamic culture has grown itself.

Therefore, Islam is a religion proved an appropriate and
universal for all the time and place, as shown by the
emergence of modern institutions such as Islamic banks
in different parts of Islam. Therefore, Islam provides
a modern solution to every problem, if Muslims try hard
enough. Also, the teaching that people can learn from the
history of Islamic banks, will throw more light that one
should look at Islamic banks as a phenomenon.
Therefore, this article made for the purpose of reviewing
the historical development of Islamic banking industry in
Southeast Asia. Only a few countries as samples for this
study such as Brunei, Philippines, Indonesia, Malaysia,
Singapore and Thailand to show the cooperation and
close relationship as well as the sequence in the
development of this industry in the region. This followed
by discussion of comparison in terms of industrial
development that involve the development, performance
and finally the challenges and prospects of Islamic banks
from the viewpoint of the economic development of
Southeast Asia, are discussed.

Islamic banking

Islamic Banking is a financial institution which operates
on the objective of implementing economic principles and
Islamic finance in the banking arena (Kamal et al., 2008).
The secretariat of Organization of Islamic Cooperation
(OIC) has defined Islamic banking as:

“...An Islamic bank is a financial institution whose statute,
rules and procedures expressly state its commitment to
the principle of Syariah and to the banning of the receipt
and payment of interest on any its operations...”

From the above definitions, Ali and Sarkar (1995)
concluded that Islamic banking system is a system based
on the following Sharia principles:

1. Prohibition of *riba* (interests).
2. Prohibition of *gharar* (uncertainty, risks, speculation).
3. Involves *halal* activities (permitted by Islam).
4. Based on justice (which is the ethics and aim of the
religion).

Islamic banking is also a normative concept that can be
defined as banking management that is compatible with
the system of Islamic values (CIFP, 2006). Ideally, a
banking system can be regarded as Islamic when its
business conducts are based on profit and loss sharing,
based on a participant’s equity. The basis of the business
is sharing with the customers, not as debtor and creditor.
It does not only mean an elimination of interests, but
more than that (Joni and Hadenan, 2006).

The principles of Islamic banking system

Generally, the best aspect of Islamic banking is the
concept of justice and truthfulness. According to Ali and Sarkar (1995), among the principles of Islamic banking are:

i. Prohibition of Riba: Islam prohibits its followers to receive or provide usury even for the purpose of getting a loan or the charged interest rate is low. In Islam, only a number of loans are allowed, such as Qard al-Hasan (benevolent loan), where the borrower is not charged any interest or additional incrimination on the borrowed sum.

ii. Participation of Equity: In Islamic muamalah, the fund provider is the investor. Therefore, the fund provider and merchant will share risks and profits in the business. Apart from that, the concept of funding in Islam is based on the concept of mutual trust between the provider and the merchant. This will increase the growth of economy and encourage the merchants to maximize their effort in a business.

iii. Money as Potential Capital: In Islam, money is the medium of exchange that functions as value evaluator tool for a commodity and does not have its own value like other goods. Therefore money should not be used as a medium to generate more money, either through saving process in banks or lent to another party. Money in Islam is considered as possible capital. It can only be the actual capital when combined with other sources in carrying out production activities. Indirectly, this principle encourages Muslims to invest their money in various ventures since savings and frozen money in Islam are haram (forbidden) and in economy are considered as leaks (Jomo and Ishak, 2003)\(^1\).

iv. The Role of Akad (agreement): Islam holds strongly to the obligation of akad and exposure of information as a requirement that must be fulfilled during transaction. This feature is created in order to reduce the problem of information injustice and integrity between two parties who are in agreement. For example, both parties must have complete information on the product in the respective transaction.

v. Activities Approved by the Sharia: Islamic banking system is known as a system free of business activities that violate Sharia regulations such as investment in business related to liquor and gambling. Therefore Islamic banks in Malaysia in particular have established their own Syariah Advisory Council, which comprises Sharia experts who act as auditors and advisors to the bank. They are wholly responsible in ensuring that operations and activities of the bank do not breach the values of Islamic ethics.

### The basis of Islamic banking product development

Basically, the development of Islamic banking product is based on the criteria of *Fiqh Muamalat* (Islamic Commercial Jurisprudence). The scope of *Fiqh Muamalat* is actually different from the scope of *Fiqh Ibadat* from the Islamic perspective. Qalâ‘ahij (2000) has listed the main features that differentiate between *Fiqh Muamalat* and *Fiqh Ibadat*. The differences are in Table 1.

The characteristics of *Fiqh Mualimat’s* practice in the above table have been widely applied in the current transaction especially in determining and shaping a financial product and Islamic banking, as long as it does not violate Sharia principles. In reality, Sharia has opened the doors of creativity and innovation to the Muslims in developing their economy with the guidance of Allah s.w.t. With this understanding, the development of Islamic banking product is seen as dynamic, adaptable and flexible in whatever circumstances where Muslims can play their respective roles effectively and extensively.

### The evolution of world Islamic banking

The existence of banking institutions which operates on Sharia principles is still in its early stage, compared to conventional banking system that has existed for 420 years, since the established Banco della Pizza di Rialto in

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\(^1\) Leaks are matters that lead to decrease in money flow in an economy. Specifically, leaks are any part from income that comes from the circular flow of the economic income. Savings (part of the income that has not been spent) is an example of of a leak from the circular flow of a nation’s income.

#### Table 1. The differences between Fiqh Muamalat and Fiqh Ibadat.

<table>
<thead>
<tr>
<th>Fiqh Muamalat</th>
<th>Fiqh Ibadat.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fatwa or decisions made are based on the lightest and reasonable view (al-aysar)</td>
<td>Fatwa or decisions made are based on more precautious view.</td>
</tr>
<tr>
<td>The ruling that allows a practice or activity to be continued or discontinued is based on rationalistic reason.</td>
<td>The ruling that allow s a practice or activity to continue or discontinue cannot be based on rationalistic reason</td>
</tr>
<tr>
<td>The use of the main sources, al-Quran and al-Sunnah is not too detailed and more general. However rational thinking can be applied extensively.</td>
<td>The use of the main sources, al-Quran and al-Sunnah is detailed and rational thinking cannot be applied extensively or arbitrarily.</td>
</tr>
</tbody>
</table>

Source: Modified from Muhammad (2007).
Venice in 1587. It was considered the beginning of today’s modern banking (Sudin, 2005; Hamoud, 1985). However in England, modern conventional bank did not exist before 1940 and the Bank of England was only established in 1694 (William, 1971). The official start of Islamic bank began in 1963 with the founding of Mit Ghamr Local Saving Bank in Egypt.

Islamic banking during the time of Prophet Muhammad

Although the establishment of Islamic banking has only become a reality in the 1960s, it does not mean that Islamic banking activities do not exist in the history of Islam that (Joni and Hadenan, 2006). Banking activities had begun in the Arab land with its operation based on *riba*. During that time the Arabs also gave their money to another party for trading through the methods of *al-Qirad* or *al-Mudarabah* to gain profit. These methods were famous among both the Quraisy Arabs and the Jews during that time (Karim, 1996). Activities such as receiving of deposits, loans, money exchange and other exchange bills that are considered as modern banking practices took place during the time of early Islam and the time of Islamic development. During the time of pre-Islam, the city of Mecca was the center of trade and was the route of traders from the north and south. Ultimately, activities such as depositing and loans expanded rapidly and business that involve exchange of money became one of the main activities (Sudin, 1996).

Prophet Muhammad before the time of his prophet hood was well-known for his noble conducts such as honesty and integrity. The Arabs of his time were attracted to these qualities and had appointed him as their wealth keeper, until he migrated to Medina. Before his migration, he appointed Ali as the trust keeper, and to return all the assets to their respective owners (Hamoud, 1985). Apart from that, during the time of the Prophet there was also a man by the name al-Zubayr al-Awwam who took the role as a bank, and kept the deposits for other people. However, this form of money-keeping was modified by him to loans. Abd Allah bin Al-Zubayr, the son of Al-Zubayr narrated that when people brought their money to be kept by his father, he will tell that person that the money is being borrowed, instead of being deposited, as his father was worried that he might lose the money (Sudin, 1996).

Al-Zubayr’s action resulted in two main objectives; the first is by taking the deposit as loans, he has the right to use the money. Secondly, if the deposit is not used, the owner will experience loss; so if it is regarded as a loan, it is safer as the borrower is responsible in returning the money (Sudin, 1996). There are a few lessons from the tale of Al-Zubayr in the history of early Islamic banking.

Firstly, the concept of deposit was changed, which was originally a trust to the borrower. Apart from that, the sum that was deposited by the people does not belong to certain individuals only, but all the people. The second lesson is from the way money was used, where the Meccan of that time only knew two ways of using money; either giving it to another party to be traded through *al-Qirad* or *mudarabah* and the profits sharing or lending the money to gain benefits. These practices were widely practiced before the coming of Islam either among the Arabs or between the Arabs and the Jews who lived in the Arab Peninsula. However, the coming of Islam has resulted in complete prohibition of all activities that involve *riba*, and this prohibition did not prevent the development of trade that took place either nationally or internationally (Sudin, 1996).

There were evidences that the development of Islamic banking foundation had started since the time of the Prophet. Among these foundations was the development of Bayt al Mal, which was the central bank for Islamic countries and played a role in aiding the poor, especially the Muslims. The mosques of that time were organized by the Prophet as treasury. Nevertheless, Caliph Umar al-Khattab (634-644 A.D) during the time of his administration had reorganized the operation of Bayt al Mal by making it a separate entity from the mosque. Most of the resources for Bayt al Mal came from two main sources; primary and secondary. The primary sources include zakat (alms for the poor or wealth tax), *kharij* (land tax), *jizyah*, *donation* and others. The secondary sources on the hand are property without owner, properties of apostates, and properties of individuals without legal heir (CIFP, 2006).

The funds collected from these various sources were channeled into two types of spending; firstly responsibility to the nation such as for defense and the salary of government employees. Secondly is the public expenditure such as road construction and irrigation (CIFP, 2006). The finance management of Islamic countries of that time was mostly conducted under the supervision of Bayt al Mal, who did not receive deposits nor lend money to people. However, there are evidences that Bayt al Mal did give loans to certain individuals. An example can be seen when the sons of Caliph Umar al-Khattab, Abd Allah and Usayd Allah received loans from Bayt al Mal in their journey from Medina in their business venture. This was recorded in the Muwatatta’ Imam Malik. Caliph Umar stated that the transaction that took place between his two sons and the Bayt al Mal was based on the *Mudarabah* principle and he asked his sons to give a part of their profits to Bayt al Mal (CIFP, 2006).

Other activities such as money order and bills exchange also took place in the era of early Islam. For example Ibn al-Abbas had once taken *Warik* and noted the receipt of acceptance to Kufah (CIFP, 2006). Another example was Abd Allah bin al-Zubayr (624 A.D - 629 A.D) who once accepted money from the people of Mecca,^2^ A type of currency made from silver and turned into dirham.
and accepted the confirmation of acceptance to be sent to his brother Mus’ab bin al-Zubayr in Iraq, where the depositors can retrieve their money there (Sudin, 2005). On the other hand, Sayf al-Dawlāh al-Ḥamdānī (970 A.D) was the first cheque user in the history of Islamic banking system (Hamoud, 1985).

The history of modern Islamic banking

The first attempt at Islamic banking system can be seen in Pakistan in the late 1950s with the establishment of Local Islamic Bank in the rural area. During that time, the owners of the land who were obedient to the Islamic teachings deposited their money to the bank, which was later loaned to other land owners for the purpose of agriculture development. The borrowers during that time were not charged for lateness in paying back their loans, other than a small amount for the purpose of bank operation. However, the operation of the bank was met with failure due to a number of factors such as the increase in the number of borrowers compared to the money being kept there, which resulted in vast difference between available capital and credit demanded, as well as the problem of the bank employees not having autonomous power on the bank operation. This was because the depositors of that time were hoping to get more benefits as a return for the money that they lent out (CIFP, 2006).

The second attempt was through setting up of banking basic principle and Islamic finance that are to be practiced. The endeavor took place in Egypt from 1963 until 1967 through the establishment of Mit Ghamr Savings Bank in the town of Mit- Ghamr, in the area of the Nile River Delta, which is 40 kilometers from Cairo (Ready, 1967). The establishment of the bank was fully through the effort of Dr Ahmad al-Najjar and was done in a disclosed manner and did not use the Islamization platform as it might wrongly be interpreted as a manifestation of Islamic fundamentalism (Mustafa, 2005). This attempt was a result of a combination of the idea of German Savings Bank that was based on rural banking, with a general framework of Islamic values. The operation of the bank of that time was based on Islamic principles that are free from elements of interests, either to the depositors or from the borrowers (Joni and Hadenan, 2006).

The success of Mit Ghamr received praise and recognition from the Ford Foundation through its report in June 1967 because it had gained the support of the majority of the countryside residents, especially the farmers who regarded the bank as their own (El-Ashker, 1987). However, the existence of the bank was short-lived. The whole operation of Mit Ghamr Bank was taken over by the National Bank of Egypt and Egypt Central Bank in mid-1967, which changed the whole bank operation to the riba system. This act of shutting down and taking over was done by the government of Egypt for political reasons and also, it had not gained the support of the powers in Egypt (Huda, 1982; Rodney, 1983; Joni, 2000) The change to the riba system had resulted in the amount of funding and customers to decline (Rodney, 1983).

Nevertheless the problem was solved in 1971 with the founding of Nasser Social Bank in Egypt as a trader’s bank that is interest-free, even when the charter that was formed did not refer to Sharia at all (Kamal et al., 2008). The main objective of the bank was a social one, and in the beginning its operation was given exemption from the Law of Banking and Credit, 1957 (Ausaf, 1985). This bank was originally under the Egypt Treasury Ministry, but later was transferred to Ministry of Social Welfare and Egypt Insurance. Most of the capital for the bank was contributed from the budget excess of the Ministry of Egypt, government’s budget, as well as contributions from Egypt Wakaf (Endowment) Ministry. Nasser Social Bank was the first Islamic bank in the city area that promoted social activities such as interest-free loans for small projects based on principles of loss-sharing, helping the poor and fulfilling the need of university students (CIFP, 2006).

Next in 1972, foreign ministers of Islamic countries founded a special committee for the purpose of preparing an Islamic bank together. Consequently in 1975, Islamic Development Bank (IDB) was established with paid capital of 2 billion dinar, with its headquarters in Jeddah. The establishment of the bank was the result of two meetings of Islamic countries finance ministers that took place in 1973 and 1974. This bank was the sole international Islamic finance institution that was established in the effort to aid the economic and social progress of Islamic countries, especially the members of OIC4 and the Muslim ummah by adhering to all principles and Sharia (Mannan, 1988).

In 1975, a number of Islamic banks that were trade-oriented and aimed to offer an alternative in form of Islamic banking and replace the current conventional banking system were established in a few Islamic countries. There were two types of Islamic institutions as

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4 The Organization of the Islamic Countries (OIC) is an organization of 57 Islamic countries, which was founded for the purpose of establishing cooperation and the welfare of the Muslim countries. It was organized in Rabat, Maghribi on September 25, 1969 when a special meeting of Islamic countries was held in order to discuss the intrusion of a Zionist into Al-Aqsa Mosque in Palestine on August 21, 1969. The main objective of the cooperation was to defend the sovereignty of the Muslims in general and the sanctity of Al-Aqsa Mosque as the first qiblah and the third holy place for the Muslims.
well as Islamic principle companies and investments. The first group of institutions was Dubai Islamic Bank, founded in 1975 (Mumin, 1999). From there in 1977 three Islamic banks were established as public limited companies, which were Kuwait Finance House in Kuwait, Faisal Islamic Bank in Egypt and Faisal Islamic Bank in Sudan by Pangeran Muhammad al-Saud. In the same year the International Islamic Bank Association was founded and based in Jeddah for the purpose of advancing the cooperation and coordination all the activities between the Islamic banks (Dakian, 2005). Since the establishment of Dubai Islamic Bank as the pioneer of Islamic trading bank, the world of Islamic banking and Islamic finance has grown rapidly and functioning successfully. The evidence can be seen around 1980s and 1990s, when the establishment of new Islamic banks were a common phenomenon in the Islamic and non-Islamic countries. The most significant development for Islamic banking can be seen from the granting of license to a big firm which was Al-Rajhi Corporation that conducted foreign money exchange and trading with assets of more than USD 5 billion in Saudi Arabia (Mustafa, 2005). This company started its operation in 1985 under the name Al-Rajhi Banking Investment Corporation, and had gained many experiences in the field of company production and trading in Europe and United States. The success shown by Al-Rajhi Corporation especially in profit management had encouraged the Saudi Arabia government to award it Islamic banking license (Mangla and Uppal, 1998). In the 1977, a multinational investment company under the name Islamic Investment Corporation (ICC Limited) was established in Bahamas (CIFP, 2006). This company owned two branches in Sharjah, United Arab Emirate (UAE) and in Pakistan. In the following year, another public limited company was established in Jordan and became known as Jordan Islamic Bank for Finance and Investment (Cheah, 1994). The purpose of the establishment was to prepare funding and investment. Later in 1979, two more Islamic finance institutions that acted as public limited company came into reality, which were Bahrain Islamic Bank and United Arab Emirate Islamic Investing Corporation (Siddiqi, 1988). In the consecutive year, International Islamic Bank for investment and development of Egypt was established, followed by International Islamic Bank of Dakka and Maysraf Faysal al-Islami, Bahrain in 1982 (Traute, 1983). Apart from Islamic countries, the growth of Islamic banks and banking institutions also took place in non-Islamic world, especially in the west and in the countries with Muslim minorities. An example can be seen when Philippines Trust Bank and International Islamic Bank of Denmark were established in 1973, followed in 1978 by the Islamic Banking International Holding in Luxemborg (Ausaf, 1995). The purpose of this bank was to create Islamic banks in different areas that have Muslims communities, as well as to involve in investment projects in both Islamic and non-Islamic countries. The operation of the investment company was further developed when another of its branch was opened in the city of London in June 1983 under the name Islamic Finance House, and another in Denmark, known as Islamic International Bank of Denmark. Apart from that, in countries with Muslim minorities such as United States, Australia and Thailand, the idea of Islamic banking was still in the stage of processing the development of Islamic finance institution (Ali and Sarkar, 1995).

**METHODOLOGY**

Content analysis methodology was applied in this research paper. One of the main methods applied is library research methodology.

**RESULT AND DISCUSSION**

**The history of Islamic banking in South east Asia**

**Brunei**

Brunei is the third-largest oil producer in Southeast Asia, averaging about 200,000 barrels a day. It is also the world’s fourth largest producer of natural gas. As a result this tiny country enjoys one of the highest standards of living. Brunei is a constitutional monarchy. It is said that Sultan of Brunei is one of the richest persons in the world. Like Malaysia, Islam is the state religion in Brunei where 65 percent of its population are Muslims and also become a member of MABIMS (Malaysia, Brunei, Indonesia and Singapore), a regional Islamic Council, whose members include Ministers of Religious Affairs from Malaysia, Indonesia and Brunei (Salahuddin, 2006).

Actually, the first bank in Brunei, before the colonization of British was established in 1935 and was called the Post Office Savings Bank. The occupation of Japan had destroyed a majority of the records of the bank, while the first bank during the British rule was Hong Kong and Shanghai Bank (established in mid 1940s and now known as Hong Kong Bank), followed by Standard Chartered Bank (Kalaithasan and Nazim, 2004). These banks were supported by the British rulers under the British laws. Other banks that came later include Malayan Banking (1960), United Malayan Banking Corporation (1963), National Bank of Brunei (1964), Citibank (1971), Island Development Bank (1980), Baiduri Bank (1992), Tabung Amanah Islam Brunei (1992) and Development Bank of Brunei (1995) (Shahid and Kain, 2001). In the mid-1980s, National Bank of Brunei was merged with Island Development Bank (IDB) and became the only local bank in Brunei, and was known as International Bank of Brunei.

Banks in Brunei Darussalam are monitored by the Banking and Finance Act and Company Act through Finance Ministry. There is no national bank in Brunei but
the monitoring task was under the jurisdiction of Finance Monetary through Brunei Currency Board, Finance Service Department and Brunei Investment Agency. From all the banks of Brunei, only Islamic Bank of Brunei (IBB) and Tabung Amanah Islam Brunei (Islamic Trust Fund of Brunei) offered Islamic banking service, while the others offered finance services based on conventional banking practices.

Islamic finance has played an increasingly significant role in economic development of Brunei Darussalam. The first official Islamic bank in Brunei was Tabung Amanah Islam Brunei (TAIB) in 1992. The factor for the formation of TAIB was to fulfill the needs of the Muslim society in Brunei, and the establishment of an Islamic bank is considered an act of fardu kilayah (Shahid and Kain, 2001). In the beginning, TAIB acted as a trust fund group and its main function was to organize facilities for Muslims to go to hajj. TAIB also functioned as a government-owned savings and loans institution. The main objective was to encourage Islamic finance services and improve the society's social-economic standard. The main target of TAIB was the part of the community who were poor or less fortunate.

In 1993, International Bank of Brunei was named as Islamic Bank of Brunei (IBB) and was to administer the community's financial matter based on Islamic criteria and it was also the second Islamic bank in Brunei. Islamic Bank of Brunei provided the Muslim community with Islamic banking facilities especially in trading and commercial finance. The target of IBB was customers from the upper and middle class (Shahid and Kain, 2001). Operating 13 branches, IBB provides product and services which are not only following the basic Sharia concepts, but also competitive with other banks and financial institutions in Brunei (Salahuddin, 2006). IBB currently also provides the following accounts and investments. In deposit sector, the bank provides al-Wadiah Current Account, al-Wadiah Savings Account, al-Mudharabuh Savings Account, Tarbiyah Savings Account, al-Bai’ithaman Ajil (ABBA) investment certificate. In the financing sector, the bank provides al-Bai’ithaman Ajil (ABBA) financing, Ar-Rahnu financing, Al-Musyarakah financing and an-Naim card financing. In 2004, In May 2004, the bank launched two investment fund, High Yield Murabaha Investment (HYMI) and Physical Gold Investment, were launched. The bank also provides some other products and services, like al-Kafala bankers guarantee, al-Wakala letter of credit, Kad Alif (ATM card).

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The assets of Islamic banks account for over 30 percent of all banking assets in Brunei Darussalam.

Philippines

Philippines is a country where the majority of people that is 80 percent Christian, while Muslims represent only 8.5 percent of the total population of about six million people. In 1565, the Philippines came under Spanish occupation. Philippine Muslims are known as Moros by the Spanish authorities, or simply referred to as the Moors of Spain. In 1898, Spain handed over the Philippines to the United States under the Treaty of Paris. In 1946, the Republic of the Philippines, Moros community involved in conflict with the Philippine authorities on their political status (Salahuddin, 2006). In 1978, Philippine Pilgrimage Authority was established and 1981, the Ministry of Islamic Affairs was established. The Philippine government is considering the possible introduction of banks operating under Islamic principles to provide banking services to the entire Muslim population, particularly in the southern region of Mindanao.

The first Islamic bank in the Philippines embodied the Philippine Amanah bank (PAB) on 2nd August 1973 as a specialized government institutions by Philippine President Ferdinand Marcos with a paid capital of 100 million pesos (www.Islamicbank.com, 2011). Embodiment PAB is in response to the kingdom due to an insurgency by Muslims in southern Philippines, where the embodiment is to meet the specific needs of Muslims. In fact, no reference was made to the Islamic banking operations when PAB was Chartered. PAB is technically under the same category as other banks specifically as the Philippines and Development Bank Land Bank of the Philippines. The evidence, the establishment is part of the ICS response to the Muslim insurgency in southern Filipina in order to help restore and build the original southern Philippines due to the struggle and rebellion (Mohamed, 1998).

Although PAB designed to meet the banking needs of the Muslim community in particular in the Philippines, its main role is to assist the rehabilitation and reconstruction work in Mindanao, Sulu and Palawan (Huq, 2007). PAB has eight branches located mostly in major cities of the southern province of Islam, including one in Makati in the north, in addition to head office located in Zamboanga City in Mindanao. Several major government financial institutions own the controlling stock of the PAB, which has an authorized share capital of P100 million. The government has a total subscription of P30million, while four government financial institutions have a P5 million stake each (Ataul Huq, 2007).

However, the PAB is not fully operational as an Islamic bank as at the same time, still practice the interest of the banking system (Mohamed, 1998). The PAB is not an Islamic bank in the since that interest-based operations

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1 In deposit sector, the bank provides al-Wadiah Current Account, al-Wadiah Savings Account, al-Mudharabuh Savings Account, Tarbiyah Savings Account, al-Bai’ithaman Ajil (ABBA) investment certificate. In the financing sector, the bank provides al-Bai’ithaman Ajil (ABBA) financing, Ar-Rahnu financing, Al-Musyarakah financing and an-Naim card financing. In 2004, In May 2004, the bank launched two investment fund, High Yield Murabaha Investment (HYMI) and Physical Gold Investment, were launched. The bank also provides some other products and services, like al-Kafala bankers guarantee, al-Wakala letter of credit, Kad Alif (ATM card).
continue to co-exist with Islamic modes of financing. Thus, the PAB operates two “windows” for deposit transactions, which is conventional and Islamic, although it is hoped that the Islamic modes will eventually replace all interest-based instruments (Huq, 2007). Prominent under the interest-free, profit-free and profit and loss sharing system (PLS) is the Pilgrims Special Saving Deposit (PSSD) scheme designed to mobilize savings and to put the funds of intending pilgrims to good use in trade, commerce and industry that are lawful in Islam. The PSSD accounts have been kept absolutely separate from interest-bearing accounts of the bank. Deposit generated from the program amounted to P883 million as at 30th June, 1983 and yielded a profit rate of 10.2 percent in the first half of 1983, which exceeded the rate of return on regular saving accounts (Ataul Huq, 2007).

In 1989, Philippine Amanah Bank changed its name to Al-Amanah Islamic Investment Bank. Clearly, the present charter of the PAB is not sympathetic to the operational requirements of carrying out banking business in accordance with Islamic jurisprudence. It affected person that even the proposed amendments to the bank’s charter will pave the way for the PAB to be fully converted into an Islamic bank model. People at the helm do not seem convinced about the viability of the PAB as full-fledged Islamic banks.

They also consider Islamic banking in a highly risky banking proposition. They also see Islamic banking as highly risky. This is because part of the Philippine authorities in general and in particular PAB shareholders not fully adopted the Islamic value system, while the banking community is also still in doubt. Environment “hostile” to exist is to make a very difficult role of PAB (Ataul Huq, 2007).

In December 2003, Bahrain Government has entered into an agreement with the Philippine government to promote Islamic banking in the Philippines. Al-Amanah Islamic Investment bank of the Philippines is the only one Islamic bank recognized by the Banko Sentral ng Pilipinas. This bank is owned by the government of the Philippines, the Social Security System, the Government Service Insurance system, the development Bank of the Philippines and the Privatization and Management Office. The bank is actually being on 26 January, 1990, under Republic Act No. 6848, replacing the existing Philippine Amanah Bank prior to this. Actual Islamic banking operation was initially launched at the City Branch on 11 February 1991.

At the end 31 May, 1991, savings deposits increased by P4. 910 million consisting of 311 accounts, current and deposit accounts 43 3 investment deposit accounts. This bank also received 15 applications for funding projects, which involve the working capital requirements for the business, property development and construction business (Salahuddin, 2006).

Indonesia

Indonesia is the world’s largest Muslim nation and about 87 per cent of its 212 million people are Muslims. Indonesia has implemented some of the economic reforms it promised under an aid programme backed by the International Monetary Fund. Currently, there are 40 million small enterprises, 54,000 medium enterprises and 2,000 big enterprise in Indonesia. Indonesia had 4.8 per cent growth in 2004 and the economy may expand 5.5 percent in 2005.

The involvement of the Indonesian community where the majority was Muslims in banking system based on riba, as well as the development of Islamic banking in Islamic countries have influenced the idea to create a banking system that is free from the riba system (Muhammad Syafi’i, 2001). The idea to build an Islamic bank in Indonesia has existed since mid 1970s. This matter was discussed in two seminars: Seminar Nasional Hubungan Indonesia-Timur Tengah (National Seminar of Indonesia-Middle East Relations) in 1974, and the second seminar was in 1976, which was an international seminar organized by Lembaga Studi Ilmu Kemasyarakatan (Societal Knowledge Studies Board) and Yayasan Bhineka Tunggal Ika (Warkum, 2002). However there were a number of obstacles to the idea, among them were the banking operation that was based on the principles of shared profit and loss that did not correspond with the basic banking laws of that time, the concept of syariah bank from the political sense is an idealism and a part of the Islamic nation concept which was not allowed by the Indonesian government, and during that time, the establishment of new banks or branches were restricted in Indonesia (Zulaiha, 2006).

Although the effort met with failure, the idea of Islamic banking kept on expanding according to the current development until a more specific idea to establish an Islamic bank in Indonesia was carried out in 1990. Majelis Ulama Indoneesi (MUI) or the Indonesian Ulama Council organized a seminar “ Bunga Bank dan Perbankan” (Bank’s Interest and Banking) in Cisarua, Bogor, West Java on 18th until 20th August 1990. The result of the seminar was further debated during the 18th Musyawarah Nasional (MUNAS) of MUI which took place at Sahid Jaya Hotel, Jakarta on the 22nd until 25th August 1990. The result of the seminar was further debated during the 18th Musyawarah Nasional (MUNAS) of MUI which took place at Sahid Jaya Hotel, Jakarta on the 22nd until 25th August 1990. Based on the result of the discussion of the musyawarah, the committee decided to establish an Islamic bank in Indonesia, with the name “Jawatan Perbankan MUI”. In order to aid the tasks of the MUI banking Committee, Jawatankuasa Hukum Ikatan Cendekiawan Muslim Indonesia (ICMI) was founded with the responsibility of managing all the matters relating to banking law aspects (Warkum, 2002).

As a result, the first Islamic bank in Indonesia came into existence in November 1991, with paid capital of Rp 106 126 382 00 or with US$50 million. The funding of the
capital was contributed by President Suharto, Yayasan Amal Bakti Muslim Pancasila, Yayasan Dakab, Yayasan Supersemar, Yayasan Dharmais, Yayasan Purna Bakti Pertwi and a few others. Yayasan Dana Dakwah Pembangunan was determined as the foundation that supported Shariah bank in Indonesia. With the capital, the first Islamic bank in Indonesia began its operation on 1st May 1992, with the name Bank Muamalat of Indonesia (BMI) (Zulaiha, 2006). National Bank of Indonesia (BNI) has a 40 per cent stake in the Bank Muamalat Indonesia. Bank Muamalat conducted rights issue on June 1998, which increased the paid-up capital to Rp165 billion. The main contributors to the rights issues were Islamic Development Bank (IDB) and Hajj Pilgrimage Funds. In May 2004, the bank planned to raise approximately Indonesian Rp200 billion by offering shares to Saudis. The purpose of new share offering is to allow Bank Muamalat Indonesia to increase its paid-up capital in order to maintain capital adequacy ratio above 12 per cent. Total shareholders equity reached 312 billion rupiah at the end of 2003, and Bank Muamalat Indonesia plans to increase it to 600 billion rupiah by the end 2006.

In 1999, Bank Mandiri Syariah with seven offices was established in Indonesia. It is Indonesia’s largest Islamic bank by assets. Bank IFI, a conventional bank established in 1999, has established Shariah branches. In October 2003, HSBC Syariah opened a special branch that offers banking services based on Shariah (Xinhua News Agency, 2003). The opening makes HSBC the first among foreign banks in Indonesia providing such services. The new unit will follow HSBC’s similar units in Malaysia, United Arab Emirates, Saudi Arabia and the United Kingdom. It is targeting the inflow of capital from companies in the Middle east that the domestic Shariah banks are unable to accommodate. Besides that, the syariah division of bank rakyat Indonesia (BRI) recorded a 20 per cent increase annually in turnover to around Rp133.5 billion in 2003. Finance offered by the Islamic banking division of bank rakyat Indonesia (BRI) shot up 30 per cent year-on-year to Rp99.2 billion (US$11 million) in the quarter 2004. The bank has planned to open more Syariah outlets. Bank Syariah Indonesia formerly known as Bank Tungku was launched its operations in May 2004 as an Islamic bank (Salahuddin, 2006).

Malaysia

In Malaysia, the Muslim population, which was the majority, has been keen on practicing the Shariah laws in regard to banking management and funding, after a being involved in economic system that is against the teachings of Islam, such the *riba* system (Abdul Hadi, 2005). The conventional banking system that was based on *riba* had more or less given negative impact to the development of the Muslims ummah economy. There were many Muslims who were committed with Islam who did not take part in the government’s economic program mes due to the concern that loans might be *riba*-based. The evidence can be seen from the Muslims of that time who practiced other alternatives including transactions that are *riba*-free such as the buy-sell practice, to prevent from loans of money-lender institution (Joni, 2005). Apart from that, the failure of New Economic Plan to achieve its aim of 30% *bumiputera* in the nation’s economy was also a contributing factor (Mohd Ali, 1999).

Eventually the Muslim community of Malaysia began to insist that the government create a banking system that is in line with the Islamic teachings. The involvement of Dato’ Seri Anwar Ibrahim in the government during that time had also gave momentum to the demand for Islamic finance and banking system (Chandra, 1988). Therefore Bumiputra Economic Congress 1980 was formed, and it had approved a number of matters in applying to the government for the establishment of an Islamic bank for the purpose of moving and investing the funding of the Malay and Muslims based on the Sharia principles (Cheah, 1994). In the following year, Seminar Kebangsasna Tentang Konsep Pembangunan Dalam Islam (National Seminar on the Concept of Development in Islam) took place at Universiti Kebangsaan Malaysia in March 1981 had approved of a resolution asking the government to take urgent steps in drafting banking act that operates based on Islamic principles (Halim, 1983).

Following the resolution, in September 1981, the government of Malaysia of that time under the leadership of the Prime Minister Dato’ Seri Dr. Mahathir Mohamad had agreed to the formation of Jawatankuasa Pemandu Kebangsaan Bank Islam (National Steering Committee for Islamic Bank) to conduct a research on the possibility of an Islamic Bank in Malaysia (Zakariyya, 1991). The Steering Committee was staffed by 14 members, and chaired by Y.M Raja Tan Sri Mohar bin Raja Badiozzaman and LUTH was appointed as its secretariat (Hailani, 2005). In its report to the government on July 5, 1982, the Steering Committee suggested the establishment of an Islamic bank in Malaysia and the suggestion was accepted by the government (Mohamed, 1996). The committee had carried out a detailed research in aspects of legislation, operation, technical and finance. A number of visits to Islamic banks in Middle banks were carried out to obtain information on the development of Islamic banking in the region. Following the approval by the government of the report submitted by the Steering Committee, the Parliament and the Senate approved the Islamic Bank Act at the end of 1982, which was gazetted in 1983 (Joni and Hadenan, 2006).

Bank of Islam was incorporated as a limited company

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6 This bank has 156 branches and services outlets, and nearly 350,000 customers. The bank has Sharia Supervisory Board, which supervises the products of the bank with a view to conforming to Sharia. The BMI has been working to reach low-income groups in major cities as well as in villages by opening branches in cities and playing a leading role in establishing rural banks and village credit cooperatives.
under the Company Act 1965 on the March 1, 1983 with the name Bank Islamic Malaysia Berhad (BIMB) (Abdul Halim, 2005). It began its operation four months later; on July 1, 1983 with its temporary headquarter at Tingkat 1, Kompleks Jemaah Haji, Jalan 5c/1A, Subang, Selangor with 30 pioneer staffs. The approved capital for Bank Islam at that time was RM500 million, while the paid capital was RM79.9 million. Among the shareholders were Malaysia Finance Ministry (RM30million), Lembaga Urusan dan Tabung Haji (RM10million), Pertubuhan Kebajikan Islam Malaysia, Perkim (RM5million), Majlis-Majlis Agama Negeri (RM20million), Foundations of Religious Affairs (RM3million) and Federal Corporations (RM12million) (BIMB, 2008).

Throughout the 10 years of Islamic Banking, Bank Islam Malaysia Berhad (BIMB) was the sole bank that offers banking services based on the principles of Sharia in Malaysia. Many exclusive rights were granted to BIMB in the effort to develop banking products that are suitable and acceptable. Apart from that, exclusive rights were also meant to protect Bank Islam from competing with other conventional banks that were much more experienced and wealthier compared to BIMB. As a result of this, the asset of BIMB increased from RM325.5 million in 1984 to RM13.7 billion in 2003, with annual increase of 16.3% during that time. Bank Islam Malaysia Berhad was proven as a viable banking institution, with its activities expanding rapidly all over the country. For example in 2003, BIMB owned 84 branches and 2,022 employees compared to 6 branches and 272 employees in 1984 (BNM, 2008).

After this outstanding performance, a long-term plan was outlined by the government to develop an Islamic banking system that is more successful, comprehensive, viable and fulfill the needs of the Malaysians, Muslims and non-Muslim alike (Khalid, 1996). In achieving this Bank Negara Malaysia (Malaysia National Bank) applied the gradual approach. The first step was the introduction of Skim Perbankan Tanpa Faedah (Interest-free Banking Scheme) or SPTF on March 4, 1993 where the conventional banks were permitted to offer Islamic banking services like Bank Islam. This scheme was originally carried out in three conventional banks, which were Malayan Banking Berhad, Bank Bumiputra Malaysia Berhad and United Malayan Banking Corporation as pioneers in expanding Sharia-based banking services (Joni, 2001). Moreover, in the effort to ensure that the conventional banks adhere to the principles of Sharia, a guideline related to SPTF was issued in July 1993. The content of the guideline required that the conventional banks to create Islamic Banking Unit, IBU, as well as to separate the accumulated funding that exists at the banks (Hamim and Musa, 2007).

Since the establishment of Bank Islam Malaysia Berhad (BIMB) in 1993, there were no other Islamic banks in Malaysia until the year 1999 when the government approved the establishment of another trading bank that operates fully according to Sharia, called Bank Muamalat Malaysia Berhad (BMMB). The founding of this second Islamic banking institution was a result of a merger between Bank Bumiputera Malaysia Berhad (BBMB) with Bank of Commerce Malaysia Berhad (BOCB) (Yusuf et al., 2005). The merger took place when Islamic banking operations of both institutions set up a new bank. With the merger, Bank Islam Malaysia Berhad indirectly let go of its monopoly as the only Islamic bank in Malaysia (Hamim and Musa, 2007).

In 2004, the government of Malaysia through Bank Negara Malaysia has begun to execute the policy of opening Islamic banking industry to the external banking world or the international arena by inviting foreign Islamic banks to operate in Malaysia. As a result, foreign Islamic banks from the Middle East entered the Malaysian banking market. They were Kuwait Finance House (KFH), Al-Rajhi Banking and Investment Corporation and a consortium led by Qatar Islamic Bank. In addition, at this point all the conventional banks that have opened Islamic window were also encouraged in opening their respective Islamic subsidiaries that are licensed as Islamic bank. This special license allowed every branch of Islamic banks to be under the same management and supervision of the main bank, but with separate capital (Zeti, 2005).

Among the first banking group to launch its Islamic bank branch was from the RHB group with the name RHB Islamic Bank Berhad, from Commerce Group with the name Commerce Tijari Bank Berhad, from the Hong Leong group named as Hong Leong Islamic Bank, and Ambank group, named as AmBank Islamic Bank (Hamim and Musa, 2007). Eventually the establishment of these Islamic banks branches was followed by other conventional banks in Malaysia, especially those that have offered Islamic banking system services. Among them are Affin Islamic Bank Berhad, Asian Finance Bank Berhad, CIMB Islamic Bank Berhad, EONCAP Islamic and Maybank Islamic Berhad (BNM, 2008).

**Singapore**

Singapore is a Chinese majority city-state of 3.5 million population, out of which only 500,000 are Muslims, which comprise 14 percent. Singapore enjoys economic prosperity and the highest standard of living in Southeast Asia. With a GDP per head of US$25,500, Singaporean are among the world’s richest people. Compare to Malaysia, Islamic banking in this country is at its infancy, due largely to a lack of awareness and a small domestic market. Interest in Islamic financial product in the region has been gaining over the last several years but there are few retail product available in Singapore (Salahuddin, 2005).
Following the establishment of Islamic banking in Malaysia and Indonesia, Singapore was hard-pressed to start an Islamic banking system, due its reputation as the main financial service provider in South-East Asia. To compete for deposits of the Muslims society, there is every need for an Islamic banking system. Therefore on June 1994, the finance minister of Singapore announced that commercial banks will be granted business license if they offer Islamic banking system service (Philip and Barton, 1997).

Consequently, the first Islamic banking system in Singapore was introduced by the Oversea-Chinese Banking Corporation or OCBC in the year 1998 by opening its Islamic window through the launching of al-Wadiah saving account and current account. They were followed by the launching of al-Wadiah monthly saving account and the auto-zakat deduction service. In the year 2006, the company launched a new product called the OCBC Treasury Mudarabah Account (OTMA). The product was to overcome the increasing need among the Muslim corporate customers, Islamic finance institutions, non-profit organizations, mosques, Islamic bodies and others (Musyarafah, 2010).

In Singapore, companies and finance institutions were under the supervision of Monetary Authority of Singapore (MAS) and it recognized OCBC Bank as the provider in the services of Islamic banking to the Muslims. The service of Islamic banking launched by the OCBC Bank was a disciplined and easiest way to save, and it gave Muslim customers easy access to pay zakat to Majlis Ugama Islam Singapura (Islamic Council of Singapore) through their accounts at OCBC Bank (Musyarafah, 2010). Until now, a bank that practices complete Islamic banking system in Singapore does not yet exist, although Islamic window service continue to flourish in banks of Singapore.

In November 2004, Senior Minister Goh Chok Tong pledged to boost Singapore’s status as a center for Islamic Financial Services. In March 2005, The Prime Minister of Singapore made an announcement that legal changes would be made to make it easier for banks to offer Islamic banking services. The government also will revise rule that hinder the offering of products compliant with Sharia (Bloomberg, 2005). Singapore has established asset management industry with a good concentration of expertise and funds for investment and these can help develop Islamic financial products. Singapore’s leading real estate investment trust market can also complement Islamic finance well (Salahuddin, 2005).

Thailand

Islam is the second largest religion in Thailand after Buddhism. There are about six million Muslims in Thailand or roughly 10 per cent of the population. They live mostly in the southern region. The socio-political environment of the Muslims in Thailand, who are a minority, differs from that of their brethren in Indonesia, where the Muslims are a dominant majority. There is a little difference between two in so far as the manner in which they conduct their economic affairs. The economic activities of Thai Muslims in general and their financial transactions in particular are often interest-ridden and there appears to be hardly any qualms about it (Ataul Huq, 2007). In banking sector, Thai Muslims have been depositing funds across the border in Malaysian banks due to the lack of Islamic banking facilities in the country.

Currently, many of the Muslim Thais look to Malaysian and Indonesian banks across the border for such facilities.

From 28 March until 19 April 1987, Pattani Islamic Council held the Seminar for Development of Economy and Society at University Prince of Songkhla, Pattani. The seminar involved religious figures, academicians around Southern Thailand and experts from Bank Islam Malaysia Berhad (BIMB) as well as Department of Corporative Development of Thailand (Fatimah, 2010). As a result of the 21 days seminar, a decision was reached to establish a corporation that practices the first Islamic finance system as an alternative for the society, especially in the province of Pattani. Hence, the first financial institution that operated based on Islamic Sharia was established in Thailand on 28 October 1987 and known as Pattani Islamic Saving Cooperative, that operates based on Sharia. The cooperative was registered under the Corporative Act, Thailand Muamalat Law 1968 in the category Savings Cooperative and under the supervision of Islamic Council of Pattani Province (Fatimah, 2010).

The idea of for the establishment of an Islamic bank in Thailand was formed when the government of Thailand was responsible for the development of five frontier provinces such as Satun, Songkhla, Pattani, Narathiwat and Yala after signing a collaboration project of three countries for the programme Indonesia, Malaysia, Thailand: Growth Triangle or IMT-GT in 1994 (Fatimah, 2010). As a starting point for Islamic banking, the government of Thailand launched a number of initiatives including invitation to the conventional banks of Thailand in opening Islamic windows and offering Sharia-based services. Bank of Sri Nakhron was the first conventional bank that offered Islamic banking system as one of their services at the end of 1997. Nevertheless the bank did not last long due to financial crisis and had to be closed down (Fatimah, 2010). The government later commanded government banks to introduce Islamic financial services as a beginning of the establishment of Islamic bank. As a gesture of commitment, in 1998, Oosim Bank, which was the Thailand National Savings Bank (GSB) introduced
Islamic windows at five frontier provinces, starting with district of Muang in Satun province, followed by the provinces of Pattani, Yala, Narathiwat, then Sabayoi and Hatyai in Songkhla, as well as the province of Nanchok, Bangkok. Other than Oosim Bank, Agriculture and Cooperative Bank also introduced their Islamic window in a number of areas where the communities were Muslims in 1999 (Sudin and Ku Majdi, 2003).

In 2001, Khrung Thai Bank became the first bank to open an Islamic branch, where it offered a full range of products and services based on Islamic principle. To actualize the aspiration for an Islamic bank that is fully functioning and legal from Thailand’s law, the government ordered the Thailand Finance Ministry to prepare Islamic Bank Act to be submitted to the cabinet, and was approved by the cabinet in October 2002 (BankThailand, 2011). Krong Thai Bank (KTB), a state – owned bank of Thailand is the second largest banking group in the country. The bank operates 467 branches, including 91 in Bangkok, 367 in the provinces and nine overseas (Xinhua News Agency, March 18, 2003). KTB launched Islamic banking in 2002 in the provinces of Songkhla, Yala, Narathiwat, Satun, Chiang Mai and Chiang Rai. KTB’s Islamic Bank has opened 16 counter services in outer districts of the provinces. By the end of April 2003, KTB Islamic bank had total deposits of more than Bt700 million with more than 19,000 accounts at the branches in the five southernmost provinces, Chiang Mai, Chiang Rai and Bangkok. The deposits by Muslims in Thailand currently amount to about Bt40 billion. The Islamic services in Yala and Pattani each had about Bt30 million in 1,000 deposits accounts (Salahuddin, 2006).

In late 2001, the Thai Finance Ministry proposed the formation of the country’s first Islamic bank, with the ministry holding up to 25 per cent of the Bt1 billion capitals. A bill was tabled in the Senate in the Senate in June 2002 to establish an Islamic bank in Thailand. The government run Islamic Bank of Thailand was established in 2003 with a registered capital of Bt696.8 million (Bangkok Post, 2002). Paid-up capital currently stands at Bt700 million, with the Finance Ministry holding around 40 per cent, the Islamic Bank of Brunei around 20 per cent and other institutions the remainder. The Brunei Investment Agency holds at 15 per cent stake in the Islamic Bank through a fund established with the Government Pension Fund, Thailand’s largest institutional investors. The first branch was opened in Jun 2003. The bank attracted Bt100 million (US$2.6 million) in deposits on the first day of operations of its seventh branch, and plans to open 10 more branches by the end of 2004. The deposit was increased by Bt20 to Bt30 million a month due to the fact 40 per cent of Songkhla’s one million resident are Muslims.

Government Saving Bank (GSB) was the first financial institutions to offer Islamic accounts in 1996. The Islamic banking products and services were first introduced to Muslims in Thailand with the implementation of “Islamic Window” by GSB in 1998. It introduced its Islamic branches in February 1998 in the five provinces such as Satun, Pattani, Yala, Narathiwat and Songkhla. A similar concept was also introduced by . Bank for Agriculture and Agricultural Cooperatives (BAAC) in 1999, owned by the government of Thailand, operates Islamic branches. In April 2000, it had 31 such branches with Bt25 million in deposits. It has plans to increase the number of branches to 46, covering 14 provinces. The Krong Thai Bank is the first bank to set-up an ‘Islamic Branch’ in 2001. This branch offers a full range of basic banking products and services based on Islamic principles (Sudin and Ku Majdi, 2003). Established in 1998, Laem Thong Bank announced its plans to introduce an Islamic window offering four kinds of accounts; cheque accounts, savings, general investment and special investment accounts. In October 1996, it was reported that Siam City Bank would start Interest-free deposit account service for Muslims in five southern provinces-Krabi, Songkhla, Yala, Pattani and Narathiwat (Salahuddin, 2006).

Another key milestone for Islamic banking in Thailand was the enactment of the Islamic Bank of Thailand Act 2002. This law paved the way for the establishment of the first full-fledged Islamic bank, Islamic Bank of Thailand in 2003. Islamic Bank of Thailand was established under Islamic Bank of Thailand Act 2002 with direct control of Thailand Finance Ministry and paid capital of 1 billion baht. The bank began its operation on June 12, 2003 in Klongton. It eventually expanded with the opening of more branches, especially in Bangkok and the province of Southern Thailand, and by the end of 2005, there were 9 branches in total (BankThailand, 2011). This bank, which is located in Bangkok plans to open branches in Yala, Pattani, Narathiwat and Songkhla. To ease the progressive business and to increase the competitive effectiveness, the headquarter was transferred from Klongton to Asoke in August 2005. In November 2005, Islamic Bank of Thailand expand its wings further when it took over a Sharia-based financial management business from Khrung Thai Bank Public limited, which changed the number of branches for Thailand Islamic Bank from 9 to 27.

Conclusion

The spread of Islam to the whole world, including South-East Asia has brought many benefits to all humans, where they have been introduced to a system of justice and peace. Justice is applied equally to all human, regardless of the race, origin, wealth, power, social status or religion. With the addition of Islam being a religion of openness, it does not reject practices of people of all races from all corners of the world, as long as these practices do not contravene with humanistic and Sharia values.

The passage of time has witnessed the evolution and
innovation in human lives. All kind of methods and applications in daily life have aided and transformed the way humans live. The birth of modern banking has enable money and property transaction to be managed in orderly and effective ways. However, novel creation must be evaluated and analyzed carefully so that its objective and effectiveness will bring benefit to humankind. Consequently, the Islamization of modern banking has brought many advantages to the need of Muslim societies in the aspect of financial and property management. The lives of the Muslims have been transformed and become more progressive and advanced. To conclude, Islamization does not limit its believers to move forward by venturing into or creating something new, as long as it adheres to the principles of Sharia.

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