



ISLAMIC BANKING REVOLUTION IN MALAYSIA: A REVIEW

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Article History: Received on 25th January, Revised on 02nd September, Published on 07th September 2019

Abstract

Purpose of the study: The study aims to review the development of Malaysian Islamic banks from the year 2008 to 2015 and its role in financing Malaysian economy.

Methodology: The sources of data were collected from Malaysian banks, the reviews of the experience of Islamic banks in Malaysia has been discussed, then this study analysed the roles of Islamic banks in the allocation of resources in the banking system. finally, this study explained the overall development of performance in Islamic banks in Malaysia.

Main Findings and Novelty: The results of this study show that the Malaysian Islamic banks have contributed on the structure of the Malaysian economy; particularly in supporting the SME (small and medium entrepreneurship) industries as well the large projects, which create a good positive impact on Malaysian economy and became one of the main financial sources of Malaysian investment.

Applications of this study: Achieving the required requirements for the success of the desired Islamic financial system such as adherence to ethical controls and behavior would reduce the problematic ethical risks and the risks of information asymmetry and emphasis on the importance of participation in the banking system and the need to adopt them.

Keywords: *Islamic bank development, financing Malaysian economy, resource recruitment.*

INTRODUCTION

The Islamic banking system has grown significantly and has spread rapidly in many Arab countries as well as in the Muslim countries. Historically, it started with the concept of Islamic finance which began to work since 1400 years ago. When there were reports regarding the profit or the loss resulted from the non-Shariah-compliant activities increases, then the Syariah-compliance culture among the commercial and the financial transactions of Islamic banks began ([Azmi & Amin, 2017](#)). The industry of Islamic banking since then, has started to grow rapidly in the early 2000s as a response to the rapid of economic developments ([Safiullah & Shamsuddin, 2018](#)). It was found out that Malaysian economy was more resilient to the financial crisis because of its legitimate commitment to Islamic banking since 1983 ([Azhar Rosly & Abu Bakar, 2003](#)).

The global financial crisis had shown that the Islamic banks have had a positive impact on the Malaysian economy; that, later on, make Malaysia the global center of Islamic economy and Islamic finance ([Jan et al., 2017](#)). It is an effective way to achieve the growth of human development based on economic prosperity development. The result is that Malaysia has become the first industrial country in the Islamic world after expanding the industry and after opening up multiple fields of investment for a long period. In addition to that, Malaysia is one of the most important Islamic countries in the Islamic banking sector. The political will and the support of government are the main factors which helped them growth ([Noordin et al. 2016](#)).

The Malaysian government has adopted (proactive model) the most extreme intervention of regulators in the country ([Haron & Hassan, 2016](#)).in order to gain a reputation in the eyes of the world, to be a leader in knowledge transfer of Islamic banks ([Lee & Nasaruddin, 2014](#)). to reap profits, to replace usury and to strive for the nationalization of the country ([Yusoff, 2013](#)). Gaining professional authority must come from both the technology base and from the respect of the world ([Moisseron, Recherche, & Ird, 2015](#)). It is so important to encourage the development of Islamic banking to support economic development and to ensure the social balance ([Said & Umachandran, 2018](#)). It has been proven by Malaysia, who has a very encouraging history for Islamic banking and has shown a great potential of success in this field. As a result, it has proven its worth in recent years of its experience in Islamic banks ([Laldin, 2008](#)).

Today, Islamic finance and banks have emerged as an important element in Malaysia's overall financial system that contributes to the growth and the development of the Malaysian economy. Since 2000, there were an average growth of 18% in terms of assets and 20% of increment in finance and deposits for the Malaysian financial market ([Dusuki & Irwani, 2007](#)). The impact of various Islamic financing indicators on long-term economic growth is less important than its impact in the short term and this is consistent with the economic reality in Malaysia ([Hachicha, 2015](#)). In this regard, it shows the ability of the sector of Islamic banking to obtain a large share of the Malaysian market. However, the main reason behind these successes of fast-evolving and challenging financial environment is the Islamic beliefs among the Malaysian people toward this banking system despite the availability of the dual banking system in Malaysia. This paper will be organized as follows; it starts with the reviews of the experience of Islamic banks in Malaysia. Then, the subsection is about the role of Islamic banks in the allocation of resources in the banking system. The last subsection discusses on the overall performance of Islamic banks in Malaysian banking system.

LITERATURE REVIEW

The experience of Islamic banks in Malaysia

There are factors that prompted the Malaysian government to work on the Islamic financial system in the country. Angelo thought that one probable reason and perhaps the most important factor was the ethnic unrest in late 1969 when some Malay Muslims protest the Chinese domination of the commercial sector and the disparity in income and wealth despite the fact that Malays constitute the majority of the population in the country (Venardos, 2005). and this experience led the government to support in many aspects to make it successful. However, the racial unrest was not the main factor but it fastens the process of the development of Islamic banking. The main reason is the success of Tabung Haji in attracting the Malays to save their money there which was founded few years before the crisis happened. Their thrust in Tabung Haji as a free riba institution enable the government to proceed the Islamic banking agenda. Moreover, the institution of Tabung Haji has prepared the legal path and strong foundation for the next step of Islamic banking. Besides that, the constitution of Malaysia which stated that Islam as a formal religion in Malaysia creates a smooth path for the progress of Islamic banking. The ethnic crisis showed there is problem in the society but that issue was not the reason of the foundation of Islamic bank because the government had introduced a new policy, named New Economic Policy (NEP) in 1970 which aimed to curb the poverty problem, to ensure just wealth distribution and to reduce the disparity income among the races. Then, when the government started to establish the Islamic banking, experiments that combined the Islamic and traditional systems have been done and this trial enabled them to identify the stages that could be passed in the Islamic banking and its current reality in the country's financial system.

The emergence of Islamic banks in Malaysia

The talk on Islamic banks in Malaysia has begun in 1963 when Malaysian Muslims were a concern in creating a mechanism to save money that enables them to go to the Hajj without usury element, that they suggested establishing an organization called Tabung Haji. It was founded in November 1962 and officially started in 1963 (Nakagawa, 2009). The idea about Tabung Haji as an institution was inspired by Ungku Aziz who aimed its establishment not only to save money for Hajj but also as an institutional fund that can return to the economic development. Then, this institution is founded on many reasons; saving money by Malaysians who wish to go to Hajj, to do investment that complies to the Islamic law, avoid the usury benefits which normally obtained in the conventional banks, and at last, this body has achieved a system of savings service according to Islamic way that secured from the problems of riba. As a result, this Islamic-based bank is established as a public body with the help of twenty experts in banking sector who studied the possibility of Islamic banks operating in Malaysia. The result was positive for the government that they decided, there must be a separate law for the Islamic banks. Which gave IBA, which was actually embodied on 7 April 1983 through the issuance of the law on Islamic Banks with the full authority of the Bank of Negara to supervise and to regulate the Islamic banks as inspired by Ungku Aziz (Aziz, 2013). It was followed by the establishment of the first independent Islamic bank under the name of "Bank Islam" on July 1, 1983. Its objectives and principles are (Islamic law), under the Malaysian government's supervision as a strategy to gain support from the Malay Muslims. Following the encouraging performance of Bank Islam, the Malaysian government has set its goal in making Malaysia as one of the world's most important centers in 1993. Then, Bank Negara Malaysia (the Central Bank of Malaysia) has introduced a dual banking system called BIS or Islamic banking system over the conventional banks for the Islamic Banking Scheme (IBS) Accelerate the deployment of Islamic banking products for local customers in the shortest possible time. As a result, the conventional banks also were allowed to participate in offering Islamic banking products through its existing facilities.

There were 24 conventional banks responded and offer products Islamic banking services through its 1663 (Saad & All, 2004). branches. After the financial crisis of 1997 the changing environment of Islamic banking incubator in Malaysia, has allowed the government to set up a second Islamic bank called Malaysia Transactions Bank in 1999, in order to accelerate the progress in the banking industry followed by the financial sector plan introduced in 2001, and the Malaysian Central Bank began to close the branches but encourage them to become a full Islamic banking entities. The aim of this transformation is to further strengthen the Islamic banking sector towards achieving 20 percent of the total share of the banking market. In 2010, this period was also known because the government allows the Central Bank the granting of licenses to foreign Islamic banks, and it started with Al Rajhi Saudi Bank, Kuwait Finance Bank, and other banks who open their branches and operating in Malaysia (Razak, 2014). On the other hand, the gradual development of the Islamic financial system in Malaysia in the early years has increased the interest (by the international community with Islamic finance) because of its close association with the economic activities and its basic pillars such as integrity transparency, risk sharing, prohibition of excesses and speculation), that there was a launching program in 2006 that aim to make Malaysia a financial center provided that Malaysia has the platform to expand and to reach the Islamic financial services to an international Islamic MIFC International markets.

Malaysia also has the ability to open the way for the financial institutions to expand the Islamic financial activities by taking advantage of the existence of the system Islamic finance and the supportive environment (Bank Negara Malaysia, 2018). In the year of 2013, this period marked an important development in strengthening the regulatory and regulatory framework of the Islamic financial industry in Malaysia which entered into force on 30 June 2013, and the objective of IFSA was to adopt the Islamic Financial Services Law. The law paves the way for a framework for integrated Shari'ah compliance for the work of Islamic financial institutions in Malaysia. With the commencement in implementing this law,

several other separate legislations such as the Islamic Banks Act 1983 and the Takaful Law were repealed and the Payment Systems Act 2003 and the Cash Control Act of 1953, among the salient features of this comprehensive law is imposed as compliance to the provisions of the Islamic Shariah on Islamic financial institutions so that to ensure that their objectives and their activities are compatible with the principles of Islamic Sharia. It is a part of the Shari'a governance of the Islamic financial system in Malaysia ([Central Bank of Malaysia, 2013](#)).

The position of Islamic finance in the global economic system

Islamic banking has given a strong impetus to Islamic Finance in Malaysia. There are the Islamic Action Movement in 1999 and the income in 2000 shown that the Islamic Standard Sector continued to record a strong growth - with milestones during 1995 of assets by 30% to reach 47.1 billion ringgit. Then, Malaysia today is a leader in the global Islamic finance industry. In terms of regulation, standardization and sukuk issuance, accounting for more than half of the global issue in 2015, Fitch said in its report that the financing of Islamic banking in Malaysia has reached 390 million ringgits by the end of the year which is equivalent to 27% of its banking system loans (25.0% in 2014) and the growth rate of financing Islamic banking 16.2% in 2015 (compared to the conventional banking system: 5.2%), and the annual growth rate was 18.2% since the year (2011), compared to an average growth of 7.0% for conventional banks according ([Reuters's articles, 2018](#)). Today, about 34 years after its launch, Islamic finance has a well-established competitive advantage and the environment is constantly enhanced success in Malaysia and its expansion reaches 228 billion at the end of December 2009. It reached 355 billion at the end of December 2015 ([Bank Negara, 2015b](#)). It can be concluded that all interest rates on conventional deposit accounts with banks and the rate of profit declared by Islamic banks are strongly correlated with the volume of deposits of Islamic banks. Therefore, the management of Islamic banks is obliged to follow the market price when announcing profit rate to the customers and vice versa ([Haron & Ahmad, 2000](#)). One important principle behind Islamic finance is the desire to maintain moral purity of all transactions and funds allocated for Shariah-compliant investments. Therefore, they should not be mixed with non-Islamic investments ([Sole, 2007](#)), as shown in the following table.

Table 1: Total assets, deposits, and loans in Malaysian Islamic Banks for the period 2008-2015

		2008	2009	2010	2011	2012	2013	2014	2015
Assets	Islamic banks	181360	219848	253516	320519	367686	426430	455411	526 347
	Islamic windows	6740	8702	8867	8131	8268	7093	7027	9 021
	Total assets	188099	228550	262382	328649	375954	433523	462438	535 368
Deposits	Islamic banks	149 932	181 877	211 837	261 542	301 537	345 889	398 041	399 321
	Islamic windows	4770	6 962	5 116	4 845	4 919	3 058	2 639	3 340
	Total deposits	154702	188 839	216 953	266 387	306 457	348 947	400 680	402 661
Loans	Islamic banks	99857	188 839	154 066	190 938	227 655	277 491	329 643	383 494
	Islamic windows	574	659	508	446	397	428	532	974
	Total loans	100432	128 866	154 575	191 384	228 052	277 920	330 174	384 468

Islamic banking is an opportunity to attract huge amounts of petrodollars into the hands of property, as well as a small group of local capitalist elites, for the benefit of the wider community. However, the social effects of such an arrangement are still unknown ([Nawaz & Haniffa, 2017](#)).

The role of Islamic banks in the allocation of resources of the banking system

Among the most important goals set by Vision 2020 in Malaysia, is to achieve the capacity of the Malaysian financial system that allocate financial resources effectively and efficiently to support the economic transformation, and to make sure that the financial sector could play more prominent role in the intermediation of funds in the region and other emerging economies. According to ([Capital Market Masterplan & Bank Negara Malaysia, 2018](#)), the state has supported Islamic finance - as an essential part of this system - with the legislative framework and infrastructure to contribute to the achievement of this objective. It is a dynamic sector that is constantly growing ([Azizan, & Ahmad, 2013](#)). One of the growth of Islamic finance worldwide ([Gait & Worthington, 2008](#)), shows that the Islamic Bank uses its assets in an effective form ([Abdullah, & Harun, 2013](#)). In addition to the difficulties faced by the Islamic exchange in Malaysia, Malaysia has been ranked third in the world's knowledge assets and has received the second-highest share in international instruments by 31% and has a great opportunity to promote the Islamic banking sector ([Jan & Marimuthu, 2016](#)). The financial innovation and the financial nomenclature is unique in Malaysia because it is driven by religious factors and this is a hurdle to it in 2020 ([Yousafzai & Hamid, 2013](#)). Islamic bank financing is positively and significantly correlated with

economic growth and capital accumulation of Malaysia (Furqani, 2009). Figure 1 shows Islamic banks financing and growth and capital accumulation of Malaysia.

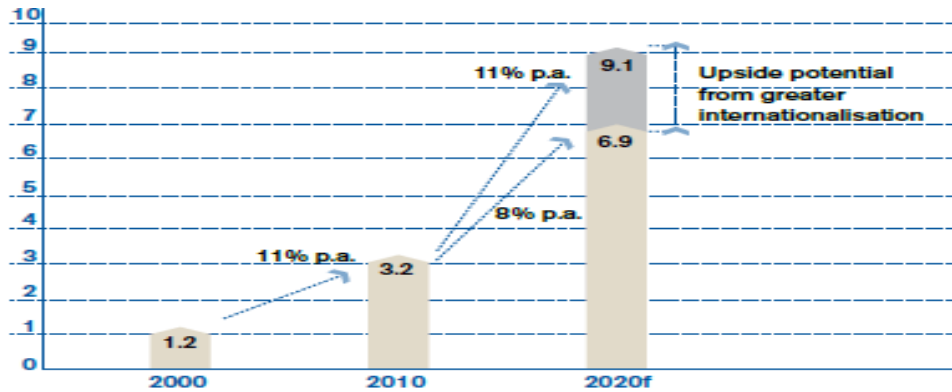


Figure 1: Size of the financial system [Sources: from (Bank Negara Malaysia, 2018)]

The uses of Islamic finance in the Malaysian economy

The Islamic finance in Malaysia has been widely accepted by the population, regardless of race or religion, where industry estimates that non-Muslims make up more than 50% of the population of Islamic Banking client base Malaysia International Islamic Financial Centre (MIFC) (Malaysia International Islamic Financial Centre, 2014a). Funding from Islamic banks is mainly used to buy auto and real estate as well as to fund operating capital and investing in securities. During 2015, there was 18% of funds obtained from banks to purchase transport vehicles (mainly personal cars), while the share of financing residential properties and working capital amounted to 25%, as indicated by the following Fig. 2.

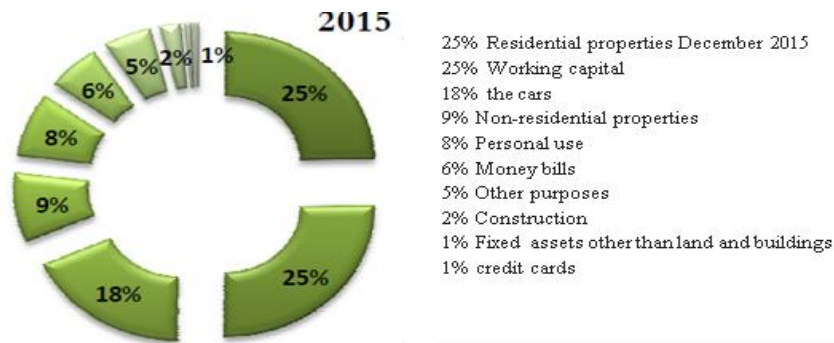


Figure 2: Distribution of Islamic banking financing in Malaysia by purpose, Sources: from (MIFC, 2014a)

In general, around 59% of Islamic finance was used in 2015 within the household sector (see Fig. 3), which means that there is a great potential for Islamic banking products for the retail sector. There is a wide range of Islamic products available for the purchase of real estate such as reduced participation contracts, leasing, and Murabahah, Malaysia International Islamic Financial Centre (MIFC) report (Malaysia International Islamic Financial Centre (MIFC), 2014b). National income and interest rates are important factors in influencing the supply of bank loans (financing) (Karim & Karim, 2017).

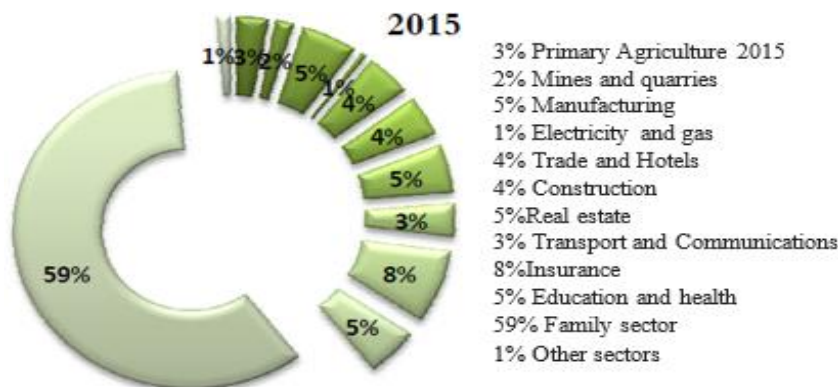


Figure 3: Distribution of Islamic banking financing in Malaysia by sector, Sources: from (MIFC, 2014b)

On the business side, the most important borrowers are variety of companies, either from the business sector or private education or health sectors, which shows the broad acceptance of funding Islamic economy in various real economic sectors. The SME sector is an important part of the economy of Malaysia, according to statistics released in 2014. The value-added of small and medium enterprises 396.6 billion ringgit and contributed 35.8% of GDP at current prices as shown in Table 2 illustrates the importance of SMEs in supporting the Malaysian economy.

Table 2: Value-added and percentage of contribution to GDP of institutions SMEs in Malaysia for the year 2014

Category	Value Added (Billion Ringgit)		Contribution to GDP (%)	
	Current prices	Fixed prices 2010	Current prices	Fixed prices 2010
Small businesses	390.6	363.5	35.8	35.9
Large enterprises	710	649	64.2	64.1
Gross domestic product	1106.6	1012.5	100	100

Enhancing access to finance the SMEs is a key pillar 35.9%. To this end, it provided: 2015 to achieve the goal of increasing its contribution to GDP to 42% by 2020. Different programs to increase the supply and diversification of funding for these institutions, and the benefit from the participation of banks for the growth and the development of (small and medium-sized companies) (Bank Negara Malaysia, 2015). In April 2012, the Islamic finance industry supported by the government has introduced a new corporate finance program SME compliant where the government has pledged to provide 2% of the profit rate Islamic finance provided by Islamic banks participating in the program that financing the small and medium enterprises (when financing approved projects for up to five years (Syariah-compliant schemes to provide further aid to Malaysia's SME growth, 2013). The Malaysian government has also earmarked 2 billion ringgits of its 2012 budget for this program to establish Sharia-compliant small and medium-sized enterprises, and to support them with an additional 1 billion riyals. The general budget for 2016, effective until December 31, 2017 (Bank Negara Malaysia, 2017). Among the many systems to support small and medium enterprises, the Malaysian government announced the allocation of 150 million ringgit (IAP) to the 2015 budget to support the Sharia-compliant investment account platform (equivalent to 45 million US dollars) as a down payment.

The overall performance of Islamic banks in the banking system

In terms of the relative performance of the banking system as at the end of the year share of Islamic banking, assets rose to 26.8% (see Table 3), and distribution channels improved the number of Islamic branches of conventional and Islamic banks reached 2206 branches (Bank Negara, 2015a), which stimulated the presence of the Islamic financial institutions such as financial institutions for the development, and for savings institutions (And housing loan institutions to develop plans and tools to meet customer demands (Reuters's articles, 2016).

Table 3: The contribution of Islamic banks in Malaysia to total assets and financing
Pineapple Smallholders Profiles

Unit (%)	2008	2009	2010	2011	2012	2013	2014	2015
Assets of Islamic Banks / Total The origins of the banking system	17.4	19.6	20.7	22.4	23.8	25.0	25.5	26.8
Islamic banking finance / Total bank financing	18.9	21.6	22.7	24.3	25.8	27.5	29.2	31.3
Risk weighted capital ratio	14	15.6	15.5	15	14.3	-	-	-

The table indicates that the Islamic banking industry has shown a positive outcome, an increase in the number of assets reflecting a strong growth and representing 26.8 percent of the total assets in the banking system (from 18.9% in 2008 to 31.3% in 2015) is expected to constitute 40% of the funding of the total funding by 2020. This is due to the increases in new funding approved and issued by 55.1 percent and 19.4 percent. While the proportion of non-performing financing decreased to 4.8 at the end of 2005 and remained capitalized. Over 12% of the Islamic banking sector is in a good condition with a risk-weighted at capital ratio and the income of the Islamic banks continued to rise, reaching 5039.6 million ringgit in 2015 (compared to 1810.7 million ringgits in 2008). However, it saw a slight decline in 2011 reaching 3026.9 million (compared to 3186.8 million ringgit in 2010) and accordingly the return on assets and rights decreased and the shareholders are 0.3% and 2.3%, respectively as shown in Fig 4.

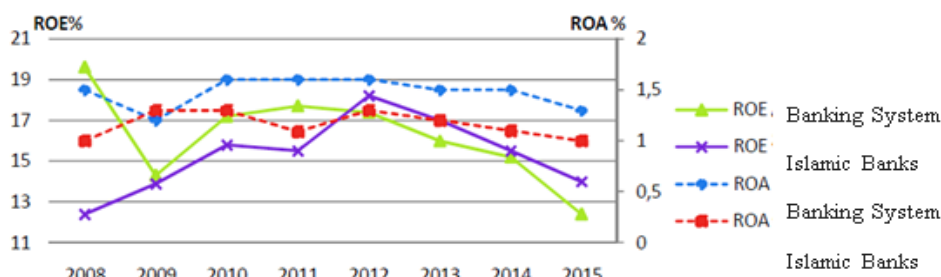


Figure 4: Indicators of profitability of Islamic banks in Malaysia, Sources (Bank Negara, 2015a)

Drawing on aggregate data from the annual reports of the Central Bank of Malaysia (ROE) and return on equity (ROA) at the banking system level both returns on assets declined largely in 2009 due to lower interest income, which was impacted by the consequences of the 2008 global crisis. Islamic banks increased significantly in both indices in the same year (B 0.30 and 1.50%) respectively and returns to decline in 2011 to lower income compared to the large increase in assets, the ratio of non-performing loans in Islamic banks averaged 1.5%, from 2.3% In 2008 to 0.9% (compared to 1.2% in the banking system) at the end of 2015 (Fig. 5) in parallel with. The ratio of loan losses (financing) recorded high rates of more than 100% on average. This reflects effective risk management for maintaining appropriate levels to cover loan losses the management of interest rate risk should be the concern of the Malaysian banking system and its control and control periodically as it is a growing global competitive market (Karim & Verhoeven, 2005).

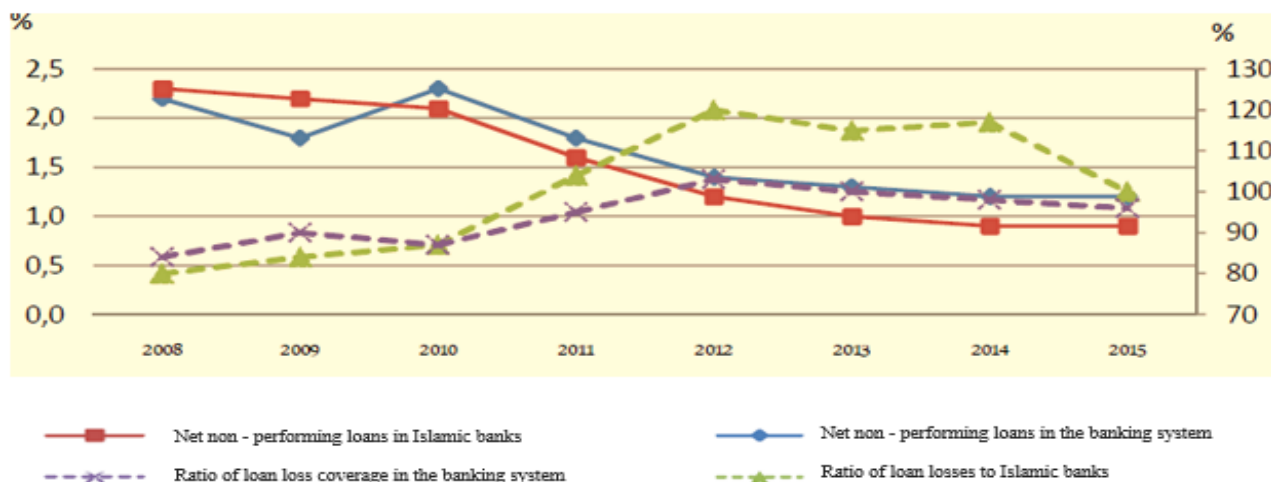


Figure 5: Ratio of net non-performing loans to loan losses in the system Banking and Islamic banks, Sources (Bank Negara, 2015a)

On the other hand, Islamic banks managed to control their costs better than conventional banks. The ratio of cost to financing income was only 25.31% compared to 45.53% (cost to income ratio) (Fig. 6). In general, we note that this ratio takes almost the same trend during the analysis period.

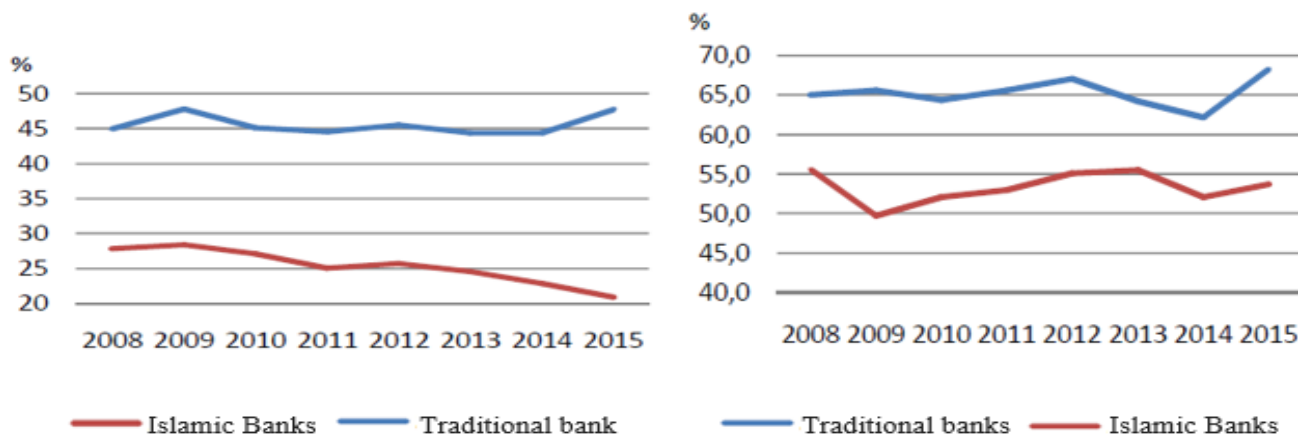


Fig. 6. The costs of Islamic banks are affected by changes in interest costs, Sources (Bank Negara, 2015a)

According to (Bacha, 2004), a large base for non-Muslim clients and the use of financial instruments that mimic traditional instruments before Islamic banks create a wide link between the two systems making the preference between them quite possible especially before non-Muslim customers. It means that when interest rates change in the conventional systems, and the returns on deposits must be changed in the Islamic banking system as well. Because of the absence of similar changes in the yield on Islamic bank deposits, the chance of weighting will be in favor of the conventional system, and therefore the consequences of interest rate movements that apply to conventional banks have been applied in the Islamic banks too. That is when the cost of money changes in the conventional banks, the cost of funds, the Islamic banks also have to change. They meant to fulfill obligations or to satisfy the principles of Shari's set out in the relevant standards of jurisdiction and widely accepted norms of international law, but the Islamic banks do not follow the same administrative values, in (Chowdhury et al. 2015). Banking has emerged as one of the fastest-growing industries in the world and has been widely accepted by Muslims and non-Muslims alike, in (Buerhan Saiti, 2015). Islam is one of the vital sources of economic growth, especially in countries where Muslim traders refuse to deal with usury such as Malaysia and the Arab countries (Ibrahim & Muhammad, 2014).

Where consumer protection helps the Malaysian banking industry to continue and further exploration is needed to uncover the techniques used and areas that are not sufficient in those banks. Thus, there is a need for more unique standard methods in Islamic financial products to avoid loss of priority (Azmat & Brown, 2014). The participation of the labor force increasing the national production is directly related to the performance of Islamic banks so that those who are taking note of the effects of the performance of banks. The performance of the Islamic banks has been described as a cost-ineffective but it found out to be superior in terms of management and profitability efficiency. In few studies, Islamic banks should not give up recommendations to improve their management skills in risk management. The technology is used to reduce the cost of operations while at the same time continuous training and investment to increase the needs of industry as stated in study (Aliyu et al. 2017). because the Islamic banking industry needs continuous capacity development due to frequent changes in financial practices. Nowadays, Islamic banks are profit-oriented than socially motivated, and it has reached beyond the Muslim majority countries. The penetration of Islamic banks in the Muslim minority countries draws the attention of academicians and policymakers in those countries to publish in the high impact journals. There is a need for studies to explore the jurisdictional concentration of Islamic finance and banking research, which hinder our understanding to know the affiliated institution with higher impact research in the area. Investigating Islamic banking and finance impact research will help to determine institutional metric. Recent findings challenge the earlier conclusions that Islamic banks' rate is mimicking the conventional banks. We, however, do not know whether these differences will influence the performance of Islamic banks to achieve a better social objective or not. Islamic banks performance better during financial crisis and soundness. There is a need for further research on NSFR compliance, stability enhancement, and its efficient functionality to Islamic banks (Ramady & Albinali, 2016).

FINDINGS AND ARGUMENT

Our results show that small Islamic banks enjoy higher solvency positions than their commercial banks. However, studies of the relationship between stability and recent size suggest that Islamic banks should expand their size because they can be better when strict regulations are observed and monitored. It is recognized that cross-border Islamic banks operate on the same brand-name products with different structures and that some products restructure traditional brands without compliance with the semi-exceptional Shari'a (Beck et al. 2013). It is hoped that the management of Islamic banks will make some effort to educate people in general not only about their services and products, but also the adoption of Islamic principles in their clients' financial activities (Hamid et al. 2005). Although Shari'a controls reduce the behavior of risky Islamic banks, the risk of insolvency is affected by the structure of Islamic banking income, because depositors and the structure of shareholders in Islamic banks receive a higher share of the ownership of the industry. Therefore, the management of Islamic banks must improve their risk management strategies to maintain a high level of solvency and the empirical studies used in this review covered the period between 2000 and 2015. A few studies of the stages of development of Islamic banks in Malaysia included.

CONCLUSION

This research focused on the nature of the Malaysian experience in the field of Islamic banking, which is one of the pilot experiences that enabled this country to make a huge leap from a developing country after independence from Britain, to an inspiring country to be included in the ranks of developed countries by 2020. This paper pointed out that the Islamic finance in Malaysia has received the government support since the beginning of this breakthrough and then has developed the most prominent frameworks in 2013, by strengthening the regulatory and the supervisory framework for the financial industry of the Islamic Bank in Malaysia and to adopt the Islamic financial services law. The study also indicated that the Islamic banks have completed the banks rather than being competition, leading a focus on Islamic alternatives to the conventional products, standards and the pricing of the product. Thus, the return on deposits and financing costs in Islamic banks will be similar to conventional banks. The Islamic finance industry has the merit of balancing between contracts of contracts and contracts of participation in order to achieve the spirit of the purposes of Sharia in the formation of a balanced society, the circulation of wealth, the equitable distribution of income and the stability of the financial system. Achieving the required requirements for the success of the desired Islamic financial system such as adherence to ethical controls and behavior would reduce the problematic ethical risks and the risks of information asymmetry. The emphasize of the importance of legal and regulatory institutions to be supervised by the state in order to strengthen this compliance with the controls which allows the access to funding different segments of society. The emphasis on the importance of participation in the banking system and the need to adopt them in the Islamic financial institutions is their ability to regulate the contractual relationship between the parties involved in the financing process.

LIMITATION AND STUDY FORWARD

More research is required on the importance of participation in the banking system and the need to adopt them in the Islamic financial institutions is their ability to regulate the contractual relationship between the parties involved in the financing process for future research.

ACKNOWLEDGEMENTS

The authors are grateful to Universiti Teknikal Malaysia Melaka (UTeM) for the financial and technical support for this study through the research grant PJP/2018/FPTT/S01646 and UTeM Zamalah Scheme.

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