Islamic Banking in Malaysia: A Sustainable Growth of the Consumer Market

Ching Wing Lo and Chee Seng Leow

Abstract—For the past 3 decades, the Malaysian Islamic banking sector has been growing rapidly with an average of 18% growth per annum in terms of assets since 2000. As at 2013, Malaysia continued to record substantial achievement with a total asset of RM426.16 billion which represent about 13% of the total global Islamic banking assets, behind only to Iran and Saudi Arabia. However, if compare to conventional banking sector in terms of assets and customers size, the Malaysian Islamic banking sector is considered at its infancy stage. This is mainly due to the late establishment of Islamic concept into the banking system. Although the general awareness towards Islamic banking in Malaysia is considered at acceptable level, in terms of assets, financing and deposits the Islamic banking sector only captured about 13%-14% of the total banking markets share which is still far fetch from the conventional banking sector. Nevertheless, the consumer market still provides great opportunity for the Islamic banks to target on for more profitability. Therefore, Islamic banks should formulate strategies to educate and attract more consumers to use Islamic banking products. The objective of this short paper is to discuss on the sustainable growth of the Islamic banking consumer market in Malaysia in order to identify a research gap. The research methodology is based on analytical literature review. It is found that lack of studies was conducted on customer perceptions. In the conclusion, this paper strongly recommended more empirical studies on customer perceptions towards Islamic banking in Malaysia should be conducted immediately.

Index Terms—Islamic banking, consumer market, sustainable growth, customer perceptions.

I. INTRODUCTION

Islamic banking is defined as a banking system that is based on the Shariah law with the main principles to conduct business in accordance to the sharing of profit and loss and the prohibition of interest earning and rewarding [1]. For the past three decades, Islamic banking has been growing very fast around the world with wide acceptance by both Muslims and non-Muslims [2]. The estimated size of the global Islamic banking industry is projected to reach US$1.6 trillion by 2012 [3]. Today, there are more than 300 financial institutions operating worldwide across 75 countries with the biggest hubs centred in the Middle East and Southeast Asia.

According to Malaysia International Islamic Financial Centre 2013 report, the Malaysian Islamic banking sector (including DFIs) shared 13% of the total global Islamic banking assets, behind only to Iran and Saudi Arabia [4]. In other words, the Malaysian Islamic banking sector has also been growing equally fast vis-à-vis the global Islamic banking development. Nevertheless, if compare to conventional banking sector in terms of assets and customers size, the Malaysian Islamic banking sector is considered at its infancy stage. This is mainly due to the late establishment of Islamic concept into the banking system. Although the general awareness towards Islamic banking in Malaysia is considered at acceptable level [5] but not until the 2009 global financial crisis that tested how resilient of the conventional banking sophisticated products which led to many corporations and national economies melted down. Then only the bank customers began to realize how stable Islamic banking system is. During this period, the financial crisis has revealed the weaknesses of conventional banking as compared to the Islamic banking system, as a better alternative banking in terms of fundamental risk-sharing [6], [7]. Therefore, Islamic banks especially those conventional banks should leverage on its Islamic entity to managing risk and generate more profits. At the same time, Islamic banks should formulate strategies to educate and attract more consumers to use Islamic banking services. However, at its core Islamic banks have to understand the consumers’ behavior first prior to convert them into a customer. In view of the above, this paper will discuss Islamic banking in Malaysia from consumer’s perspective. The main objective is to evaluate the sustainable growth of the Islamic banking consumer market in Malaysia in order to identify a research gap. At the end of the discussion, a recommendation is provided for future research.

II. ISLAMIC BANKING DEVELOPMENT IN MALAYSIA

Islamic banking concept was introduced in Malaysia in the early ‘80s with a noble cause to assist the Muslims as a better banking system compared to the then Tabung Haji (the Pilgrims Management and Fund Board) saving scheme established in 1963.

In 1993, the Malaysia government had liberalized the banking industry further by allowing the conventional banks to offer Islamic banking products through an “Islamic windows” to enhance the dual banking system to be more effective in promoting Islamic banking as a whole [8]. The decision has compelled the entire banking industry in Malaysia becoming more competitive as a way to improve
and increase the productivity of banking operations [9], [10]. Since 2000, the Islamic banking sector in Malaysia has been growing at average of 18% per annum in terms of assets but the Malaysian government continued to challenge upward a 20% of the total banking markets share by 2010 [11]. This is part of the long term aspiration to turn Malaysia into a leading global Islamic banking hub.

Although the Malaysia Islamic banking sector has been established for three decades the market share still very low as compared to the conventional banking sector [12]. In terms of assets, financing and deposits the Islamic banking sector only captured about 13%-14% of the total banking markets share which is still far fetch from the conventional banking sector (please refer Fig. 1, Fig. 2 and Fig. 3 below).

Therefore, there are still great potential for the Islamic banking to tap from the overall banking markets size. The positive perception of customers especially among the non-Muslims towards Islamic banking is important because the Islamic banks have to compete directly with the more established conventional banks under the dual banking system [13]. According to [14], in order to capture greater market share in a dynamic and competitive financial environment, is boils down to strategic positioning of the Islamic banks to maintain their competitive edge that can satisfy the needs of their customers.

Recognizing Islamic banking has played an important role for the overall Malaysia financial industry [14], in 2002 the Malaysia government has launched the first Islamic sukuk in the world which has attracted a wide geographical distribution of investors [15].

Currently, there are eleven local-owned and six foreign-owned Islamic banks in the Malaysian Islamic banking sector [16]. Table I shows the list of Islamic Banks in Malaysia:

<table>
<thead>
<tr>
<th>No.</th>
<th>Name</th>
<th>Ownership</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Affin Islamic Bank Berhad</td>
<td>Local</td>
</tr>
<tr>
<td>2</td>
<td>Alliance Islamic Bank Berhad</td>
<td>Local</td>
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<tr>
<td>3</td>
<td>AmlIslamic Bank Berhad</td>
<td>Local</td>
</tr>
<tr>
<td>4</td>
<td>Bank Islam Malaysia Berhad</td>
<td>Local</td>
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<tr>
<td>5</td>
<td>Bank Muamalat Malaysia Berhad</td>
<td>Local</td>
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<tr>
<td>6</td>
<td>CIMB Islamic Bank Berhad</td>
<td>Local</td>
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<tr>
<td>7</td>
<td>EONCAP Islamic Bank Berhad</td>
<td>Local</td>
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<tr>
<td>8</td>
<td>Hong Leong Islamic Bank Berhad</td>
<td>Local</td>
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<tr>
<td>9</td>
<td>Maybank Islamic Berhad</td>
<td>Local</td>
</tr>
<tr>
<td>10</td>
<td>Public Islamic Bank Berhad</td>
<td>Local</td>
</tr>
<tr>
<td>11</td>
<td>RHB Islamic Bank Berhad</td>
<td>Local</td>
</tr>
<tr>
<td>12</td>
<td>Al Rajhi Banking &amp; Investment Corporation (Malaysia) Berhad</td>
<td>Foreign</td>
</tr>
<tr>
<td>13</td>
<td>Asian Finance Bank Berhad</td>
<td>Foreign</td>
</tr>
<tr>
<td>14</td>
<td>HSBC Amanah Malaysia Berhad</td>
<td>Foreign</td>
</tr>
<tr>
<td>15</td>
<td>Kuwait Finance House (Malaysia) Berhad</td>
<td>Foreign</td>
</tr>
<tr>
<td>16</td>
<td>Standard Chartered Saadiq Berhad</td>
<td>Foreign</td>
</tr>
<tr>
<td>17</td>
<td>OCBC Al-Amin Bank Berhad</td>
<td>Foreign</td>
</tr>
</tbody>
</table>

Today, Islamic banking is complementing with the conventional financial system in the economy successfully and Malaysia once again proves to the world that implementing dual-system is achievable [17].

### III. Why the Consumer Market is Sustainable?

There are five reasons that have been identified why Islamic banks should focus on the consumer market for its long term sustainability and growth.

1) The Malaysian government continued commitment in providing supports in financial infrastructure, institutions, regulatory framework, and guidelines through its 10-Year Financial Sector Plan serve as the foundation for a long term play for the entire Islamic banking sector [18]. Under this plan, greater emphasis will be placed on enhancing the resilience of the Islamic finance sector as well as special attention will be given to protect and educate the consumers on financial institutions’ service quality and integrity and personal wealth management. Hence, the 10-year blueprint plan will surely help the Islamic banking sector progress and develop ahead.

2) The Malaysian population will soon total to 30 million by 2015 and forecasted to reach 32 million in year 2020. Out of the 32 million population, 67.6% of them are aged between 15-64. It is estimated a quarter of the population fall under the middle-income group in 2020 with 60% of
them will earn a higher real annual income (after adjusting for inflation) of RM36,000 in 2020. On the other hand, the overall consumption and investment will increase in proportion to the rising incomes and enlarged middle class population [18]. All these economic activities need banking support system. That is the opportunity that Islamic banks can capitalize on.

3) According to PwC, the Malaysian Islamic finance system has a competitive advantage as compared to other Islamic financial centres due to its holistic and integrated approach especially the strength of its dual banking system [19]. This augurs well for the Islamic banking sector in cross-promoting Islamic banking products to the existing conventional banks’ captive customers. This is particularly true to the non-Islamic banking customers who are currently using the conventional banking products but lack of knowledge on Islamic banking products. They can be educated and converted into Islamic banking customers.

4) Since day one, the present Islamic banking products offered by most Islamic banks in Malaysia have been designed and innovated for the consumer markets. Save for sukuk, most of the products concept such as Mudharabah (profit-sharing), Musyarakah (joint venture), Murabahah (cost plus), Al-Ijarah (leasing), Al-Kafa'ah (bank guarantee) to name a few are basically functioning like the conventional banking products but structured and complied with shariah law. Therefore it is easier to continuing adopt and develop from the present guidelines both for the bank staff and customers understanding.

5) Finally, the most critical point that contributes to the Islamic banking business and profit is about the consumer perceptions and acceptance of Islamic banking products. According to [20] Islamic bankers considered retail customers less important than corporate customers in generating profits. It could be due to lack of awareness among the consumers towards Islamic banking that resulted in low patronage in Islamic banking [5]. However, in the recent years, the Islamic banking sector continued to record growth with a total assets of RM426.16 billion in 2013, a 10% rise from RM389.3 billion in 2011 [4]. This is a sign of increase in general acceptance of Islamic banking in Malaysia. Therefore, there is compelling reason to target on the consumer market to achieve greater profitability.

V. CONCLUSION

As the government aspire to turn Malaysia into a leading Islamic hub in the world, Islamic banks has to contribute directly towards this achievement by increasing their assets size. Following the discussion above, it has been inferred that the consumer market growth in Malaysia is sustainable which the Islam banks can capitalize on. Since customer is the main source for business and profit generation, understanding consumer behavior is crucial. Therefore, prior to formulate and implement marketing strategies, empirical studies should be carried out on customer perceptions towards Islamic banking enable more valuable knowledge can be accumulated for reference. Local researchers had advised Islamic banks to study on customer perceptions in order to promote and market their products more effectively [5, 14]. To sum up, it is recommended that studies on customer
perceptions towards Islamic banking should be conducted in Malaysia not only immediate but more researches have to be embarked as to contribute critical knowledge to the local academic and industry literature.

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