COMPARATIVE STUDY OF ISLAMIC BANKING BETWEEN MALAYSIA AND PAKISTAN

A thesis submitted to the Faculty of Finance and Banking in partial fulfillment of the requirement for the degree Master of Science (Finance), Universiti Utara Malaysia

by
Khurram Faisal Jamal

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ABSTRACT

This study deals with several objectives and 7 aspects namely promotion, product, preference, knowledge, performance, problem and infrastructure in making comparison on Islamic banking between Pakistan and Malaysia. Two techniques were used to answer the research objectives. Firstly, the qualitative method (questionnaire) and second the quantitative method (analysis of financial statements of the leading banks). The findings of thesis indicate that there are few differences and similarities exist between Malaysia and Pakistan in Islamic banking practices. The lack of awareness of Islamic banking is very high in Pakistan as compared to Malaysia. A few promotions were used by Islamic banks in Pakistan while in Malaysia customers are knowledgeable about Islamic banking because banks promote them aggressively. However there should be continuous and strong support by each government to stimulate Islamic banking system. The study finds that respondents in both countries agree that Islamic banking is a very important part of banking system primarily for religious factor in case of Pakistan and as for Malaysia it serves as an alternative banking system that appeals to both Muslims and non-Muslims. The study provides evidence that there is a vast potential of future growth in Islamic banking in both countries.
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CHAPTER ONE

INTRODUCTION

1.1 Overview of Islamic Banking

Islamic banking is basically a system of financial intermediation, its primary objective is to avoid receipt and payment of interest. In other words we can say this is to conduct banking transaction with the ethos of the value system of Islam. Islam does not only prohibit dealing with interest but also with liquor, pork, gambling, pornography and any other thing which are considered haram according to shariah. The first modern experiment with Islamic banking was undertaken in Egypt, and it was without projecting an Islamic image. The pioneering effort, in Islamic banking was made by Ahmad El Najjar. He first established a savings bank based on profit-sharing in the Egyptian town of Mit Ghamr in 1963. This experiment was successful and since then until 1967 there were nine such banks in the country.

The Nasir Social Bank, established in Egypt in 1971, was declared an interest-free commercial bank. In the seventies, a number of Islamic banks came into existence in the Middle East, for example the Dubai Islamic Bank (1975), the Faisal Islamic Bank of Sudan (1977), the Faisal Islamic Bank of Egypt (1977), and the Bahrain Islamic Bank (1979), to mention a few. The Islamic Development Bank was established in 1974 by the Organization of Islamic Countries (OIC). Over the last three decades Islamic banking did progress so rapidly and has
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