Contribution of knowledge and awareness at the development of a country's Islamic banking - Evidence from Malaysia.

اسهام المعرفة ونشر الوعي في تطوير الصيرفة الإسلامية للبلد – دراسة حالة ماليزيا.

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Abstract: Exploring growth key factors surpasses the need of developing Islamic banking, to enhancing a country's economy as this industry is real-economy-linked. In this paper, knowledge and awareness importance are examined by exploring and analyzing Malaysia's case considering IFDI-2021. Malaysia as top developed country in IFDI, is ranked first in awareness and knowledge. It is a leader educator, an expert and professional former in this field and has established crucial research institutions currently upholding the industry. In addition to legal framework and governance, Marketing Islamic banking products and developing Islamic institutions, are enhancing acceptance, understanding and rising awareness in Malaysia. Thereupon, knowledge-based-marketing is essential, and addressing the awareness gap is a must towards developing Islamic banking.
***Key words*:** Islamic banking; Knowledge; Awareness; Marketing; IFDI; Malaysia.

Résumé : Cette étude vise à explorer la contribution du savoir et la sensibilisation au développement des banques Islamique. L'étude des facteurs clés du développement est nécessaire compte tenu de l'efficacité de la finance islamique. Selon le IFDI-2021, la Malaisie est classée première, notamment dans les indicateurs du savoir et de la sensibilisation, grâce à de nombreux efforts ; entre autres : l'éducation et la formation des cadres qualifiés, ses instituts de recherche en finance islamique, cadres juridique et règlementaire adéquats, ainsi que le marketing des produits bancaires Islamiques. Tous ces appuies, contribuent à la sensibilisation et par la suite l'acception de cet efficace type de financement et au développement.
Mots clés : Banque Islamique ; savoir ; sensibilisation ; marketing ; Malaisie.

الملخص: تسلط هذه الدراسة الضوء على أهمية المعرفة والوعي في تطوير الصيرفة الإسلامية، لارتباط الصيرفة بالاقتصاد الحقيقي وكونها حل اقتصادي فعّال. تطرقنا الى تحليل عوامل التطور في ماليزيا بالاعتماد على مؤشر تطور المالية الإسلامية لسنة 2021، توصلنا الى انّ ماليزيا حرصت على تطوير كل المؤسسات المالية الإسلامية وكذا تسويق منتجات الصيرفة الإسلامية. تصنّف الأولى في نشر المعرفة والوعي، بتكوين مختصين وكفاءات في المجال، وإرساء مؤسسات بحثية داعمة للصناعة الإسلامية، إضافة الى الأطر القانونية الملائمة للعمل المصرفي، ما سمح بسد فجوة الوعي بين الأسس والغايات الحقيقية للصيرفة الإسلامية والفهم الخاطئ لها. وعليه، مسعى التطوير يتطلب تعاضد الأطراف الاقتصادية، المؤسسات المالية، البحثية والأكاديمية، لفتح آفاق وحلول مستقبلية.

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الكلمات المفتاحية: صيرفة إسلامية؛ معرفة؛ وعي؛ تسويق؛ ماليزيا.

INTRODUCTION

A country's financial system must be based on real principles and linked to real economy, in order to achieve real economic development. The direct linkage to real economy is one of the main characteristics of Islamic economy, which encompasses Shariah compliant financial institutions. Islamic financial institutions are not only a religious necessity but they have approved their efficiency and competency at economic development and against several financial imbalances. Consequently, countries worldwide are adopting this type of financing and keen to develop their share of Islamic finance industry. Yet, not all countries are at the same level of Islamic finance development.

Islamic finance industry is a knowledge based one, it is also based on Shariah law and aims at protecting its macro purposes. It is characterized by a set of principles that organize financial transactions, but never to just prohibit them. Islamic banking is dominating Islamic finance industry's assets, it operates through equity-based (participatory) and debt-based (non-participatory) contracts, therefore Islamic banks don't offer loans, except for Qard Hassan. Yet, and from the inception of Islamic banking, people tend to think that it is the type of financing that only reject paying or receiving usury (*Riba*). The concept is much broader, and this lack of understanding in addition to the perception of Islamic banking products as similar to conventional ones but with a higher price, lead to form a huge gap of understanding especially in the absence of a veritable knowledge and awareness plans.

Thereof, in addition to the measurement of Islamic financial institutions performance, Islamic finance development indicator (IFDI) is one of the ways of exploring the key factors of Islamic banking development. It covers 135 countries, and among others; Malaysia, as one of the fastest growing and developed Islamic financial system. This composed index regroups five areas to assess the industry's infrastructure and ecosystem, such as knowledge and awareness. Thereupon, we question if:

- **Do knowledge and awareness contribute at developing a country's Islamic banking? Was it the case for Malaysia?**

To answer the aforementioned questions, study will be devised into four chapters:

I. Conceptual framework: Principles and concepts.
II. Knowledge, Awareness and Marketing linkages
III. An overview on Islamic banking global activity and products.
IV. Evidence from Malaysia.

1. CONCEPTUAL FRAMEWORK: PRINCIPLES AND CONCEPTS

The Islamic financial system is a clear system as it is based on Quran and Sunnah and Islamic finance is a fast-growing industry. This chapter is about Islamic finance principles, Islamic finance institutions including Islamic banking, and Islamic banking products types.

1.1. Islamic finance principles

The rejection of loan interest is the most known information about Islamic finance, however, the purposes behind this type of financing aren't limited at prohibiting *Riba*. The principles of Islamic finance are much broader than the rejection of loan interest (Stoika, 2019), but the essential feature of Islamic finance and banking is to achieve the objectives set forth in Shariah law. Unlike conventional finance which focuses purely on profit maximization (COMCEC, 2016), Islamic finance tries to maintain the moral purity of financial transactions. It aims at maintaining high ethical values, create wealth to be equally distributed in the community, and protect the macro purposes (*maqasid*) which are: religion (*deen*), life (*nafs*), lineage (*i'rdh*), intellect (*aakl*), and wealth (*maal*).

Islamic finance is a Sharia compliant finance and is organized by a set of principles and rules, based on the primary sources of the Shariah; Quran and Sunnah (the sayings and actions of the Prophet *Muhammad* transmitted in form of *Hadeeth)*, in addition to secondary sources; Islamic jurisprudence (*Fiqh*), interpretations (*Ijtihad*) of experts in particular cases, deductive reasoning (*Qiyas*) and the expert consensus of various schools of thought (*Ijmae*) (DiMaria, 2013, p. 12) for what concerns the questions confronting the contemporary Muslim community.

Due to the industry's ability to demonstrate a higher level of ethical credibility, Islamic Finance has grown into an influential global financial segment, and is now interestingly built with individuals having a different set of beliefs according to which they maximize their afterlife utility over their utility functions (Grira & Labidi, 2020, pp. 8-9). Therefore, growing Muslim population are seeking Shariah-compliant financial instruments in addition to non-Muslim people and countries. Among the principles of Islamic finance:

- Ban on interest, speculation and uncertainty; as well as prohibiting financing certain sectors such as weapons and gambling.
- Profit and loss sharing principle PLS, where parties to the financial transaction must share the rewards and the risks attached to it in lieu of risk transferring to one side (World Bank; Islamic Development Bank Group, 2017, p. 86).
- And foremost, the asset backing principle, that each financial transaction must refer to tangible, identifiable underlying assets. Given that Islamic economy is real economy oriented.

1.2. Islamic Banking as part of Islamic financial institutions

Islamic finance industry encompasses various and linked financial institutions, some of them operate in monetary market, while the others operate in capital market. Thus, ensuring Islamic finance development may play a huge role in several economic fields due to this variety.

Table (1): Main Islamic financial institutions

Islamic Banking	***Sukuk***	**Islamic Funds**	***Takaful* Institutions**
Known as the banks that prohibit usury taking or giving, however, the concept is broader. Islamic banking differs from the conventional one in terms of principles and purposes. IB is based on Sharia law that regulates and facilitates Islamic financial transactions. IB aims at financing socio-economic projects, through equity based and debt-based contracts covering all aspects of financing needs. The challenge is reducing dependence on debt-based ones and make	Often compared to traditional bonds. Sukuk are an investment tool, mainly active in capital market. It is defined as certificates that represent a right of ownership, and are issued according to a formula of Islamic finance, provided that *Murabaha*, *Ijarah* and *Mudarabah sukuk* are currently the most used ones. Based on the principle of profit and loss sharing, they are considered to be one of the tools that help accumulate	Differ from traditional funds in terms of management. The AAOIFI defines Islamic funds as investment tools that are financially independent from the institutions that established them, taking the form of units or equal participation shares. They also reflect a financial pool for individuals' savings and investing in various fields by an experienced entity. This, in order to contribute at economic development and circulation of money, and leads to benefit small and large investors, as they put their money and generate profits. Some types of Islamic funds are:	A group of participants support each other in case of exposure to certain types of risks, by contributing in a fund managed by Takaful Institutions. All operations must be Shariah compliant, and Takaful institutions are companies whose job is to manage money, not to guarantee it. Relationships in Takaful insurance between the subscribers and the shareholders (the insurance company) are managed either through *Mudarabah* contract, *Wakalah* (agency), or *Mudarabah* and *Wakalah* together. It is worthwhile mentioning

it restricted to buying and selling real goods and services.	savings for real assets backed up investment projects.	stock, bonds, currencies, real estate, mixed asset, and sukuk funds.	here that Takaful allows customers to share risks for wider coverage and effective operation.

Source: by the authors based on (COMCEC, 2016) & (World Bank; Islamic Development Bank Group, 2017) & (Yesuf & Aassouli, 2020) & (الخثلان، 2012)

1.3. Islamic Banking Products

Islamic banking resources must be directed towards real and long-term assets (Hichem & Guermazi, 2012). The most important rule of Islamic finance is the correlation of all financing operations with real assets, results, and financing through goods and services on the basis of partnerships, sales and rentals, to strengthen the link with real economy.

According to (Seho, Ismath-Baccha, & Smolo, 2020) there are three groups of financing instruments; the first is "Sale-based" financing instruments which use sale as the underlying contract between a financier and client, and requires a bank to acquire an asset for a customer and then sell it to him/her on agreed terms and conditions. Secondly, "Lease-based" which include the arrangements that use *Ijarah* (lease) as the underlying contract. Acquiring the asset first is required, and contracts must be separated if the leasing the asset end with the option to buy (*Ijarah Muntahia Bittamleek).* In addition to the cornerstone of Islamic finance which are "partnership-based" contracts, where risks and profits are shared.

Generally, lease and sale-based contracts are under the "debt-based contracts" group, such as *Salam*, *Istisnaa*, *Ijarah*, and *Murabaha*. And partnership-based contracts form the second group "equity-based contracts", such as *Mudarabah*, *Musharakah*, *Musaqat*, *Muzaraa*. In the table below, brief definitions of these contracts.

Table (2): Main equity-based and debt-based contracts.

Equity-based contracts	Debt-based contracts
Mudarabah: also known as 'Trustee finance contract' or passive partnership. One party provides funds while the other provides expertise/knowledge and management. Profits accrued are shared on a pre-agreed basis, losses are borne only by capital provider. ***Musharakah***: the financier takes a direct stake in the venture. Also identified by 'Equity participation contract' providing for PLS in the joint business. The financier provides a portion of the total funds and all partners may participate in management. Profits are distributed in pre-agreed ratios but losses are borne strictly in proportion to respective capital contributions. **Declining partnership *or Diminishing Musharakah:*** a contract that allows bank to be involved in an equity-based financing of commodities where the ownership of the asset would be transferred gradually to the partner through the successive selling of its shares.	***Murabaha***: cost-plus sale or Markup sale, i.e., a sale on mutually agreed profit; client requests the bank to purchase an item; bank resells it to the client for a predetermined price (marked up). ***Ijarah:*** Lease or lease-purchase agreement. Compliant with shariah principles and rules. A contract made to lease the usufruct of a specified asset for an agreed period against a specified rental. ***Salam (including Istisnaa):*** deferred delivery purchase; only items that can be fully specified in terms of quantity, quality, attributes, etc., are eligible; monetary instruments are specifically excluded. ***Bay' Muajjal***: deferred payment, where seller informs buyer of cost, selling price and the final payment date (may be installment or lump sum); spot price may be lower than deferred payment price. Also known as *Murabaha Muajjala.*

Source: (Khan, 2010, pp. 808-809) & (Cibafi, 2018, p. 4) & (IFSB, 2021)

So actually, there are no loans in Islamic banking -except *Qard hassan* (zero-interest loans for special cases)-, but rather financial instruments suitable to several financial transactions and needs. Accordingly, defining Islamic banks as those banks rejecting dealing with usury, gives the impression of traditional banks dealing with traditional loans without paying or receiving interest only, which is not the case. Shariah compliant banks are not charitable institutions, but commercial banks respecting, protecting and ethically managing property, rights, and macro purposes of Shariah. The concept, formulas, principles and aims of Islamic banking contracts must be correctly understood by all economic parties, in order to lessen the gap between expectations and reality. This is somehow a long process but it has the merit to be focused on.

2. KNOWLEDGE, AWARENESS AND MARKETING LINKAGES

How else would people know exactly about the entire Islamic financial system if not with communication and awareness about Islamic banking contracts and concepts? Knowledge and awareness are two of five indicators that measure a country's Islamic finance and banking development. Furthermore, Marketing is as important as the two aforementioned notions. The three concepts will be discussed in this chapter.

2.1. Education and Research under knowledge concept

According to (ICD-Refinitiv, 2020), the measurement of Islamic finance industry goes beyond measuring the performance of each financial institution. The examination of industry's infrastructure is also important, from its management components such as governance and corporate social responsibility, to industry ecosystem, which is composed of awareness and knowledge. This latter is assessed through education and research.

Knowledge is defined (Seraa & Abdellah, 2020, p. 392) as the information or experience that can be communicated or shared; a justified true belief; or the capacity for effective action. Foremost, knowledge is the understanding of a situation, relationships, and rules that underlie a given domain. Therefore, in addition to the need of investing in new products to meet Islamic customer needs and demands (Rammal & Zurbruegg, 2007, p. 154), and in order to develop an effective communication plan that goes beyond just advertisement which may ensure the awareness of how Islamic banking products operate, it is also necessary for Islamic financial institutions and Islamic banks, to educate customers to adapt to the new ways of doing banking transactions, and understanding that Islamic financing involves sharing profits and losses.

Also, given that Islamic finance industry operates within a wider financial environment that is always evolving and in a world that is constantly changing, there is a need to constantly advance, prosper and innovate (Cibafi, 2018). It is necessary then, to improve from one hand; cooperation and synergy between Islamic banks, market players, academics and research institutions, regulators and authorities. And from the other hand, as Islamic banking is witnessing a continuous growth, it will need more and better trained professionals, to manage risk, to analyze the best tools of financing for each project, and to set the best marketing plans. Education here is a key contributor to growth, as a study on strategies to develop Islamic finance industry in Algeria (فطوم، 2014، صفحة 282) confirmed that it is necessary to integrate Islamic finance studies to universities and higher institutes, to educate, form and train experts in economy, finance and Shariah.

A recent study (Adrutdin & al., 2020) mentioned that the implementation of customer education concept in the Islamic banking would help to build the trustworthiness, confidence and loyalty of the customer and as a result, could increase larger market share in the banking industry. Thereof, from the perspective of customers matters, the qualified professionals together with researchers under the adequate legal framework, will work at enhancing the share of financing on equity-based contracts; to meet the needs of customers and reduce the gap between their expectations and offers. Hence, joining forces is crucial to mitigate Islamic banking challenges. Researches here may play a huge role at anticipating what each customer is likely to need, and thus, maintaining a long-term relationship.

Thereupon, to develop relationships effectively, banks are having to understand their customers better through the collection and interpretation of information. Knowledge then, is necessary to set the best plans, and is the cornerstone to awareness, given that it is first necessary to understand the perceptions and mental images, by collecting information and analyzing them, and then, correcting concepts and thoughts.

2.2. Awareness about Islamic banking

From one side, understanding and knowing about the existence or the happening of something; consciousness and mindfulness of a special subject; are all synonymous to awareness, and may help at understanding the general importance of this notion in this study. From the other side, based on the individual's perspective, beliefs, attitude, and decisions, sometimes people tend to select specific aspects of exposed information which they incorporate into their mindset. This is called selective exposure which leads to selective perception.

When people realize that they have a need, they seek for the knowledge of that need. In the actual modern world, based on globalization and internationalization, the consumer expectation and competitiveness of the market move companies to advance new products and services by innovation. So, people know about the existence of a product or service before realizing that they have a need. Which means, they become aware of the product, they develop a need. They learn more about this product or service. Then, decide to adopt or reject. Apple's products are one example at least in the current decade. Another one is the Islamic Banking (IB) service which aims to satisfy the needs of Muslim people to operate in the banking system without committing haram (Papelo & Amin, 2019). But a lack of understanding in the principles of Islamic Banking, and the lowness of awareness remain among the main challenges faced by Islamic institutions from their inception.

Even though there is a noticeable penetration to new markets and the existence for over a half century, awareness on Islamic banking products and services are hardly known by most people even though a majority of Muslim community know about it. Furthermore, this lack has led to differing opinions on Islamic banking products and services (Cheteni, 2014, p. 98).

It is necessary then, for Islamic financial institutions, and especially banks, to educate customers on how the Islamic banking system works. The banks offering Islamic finance should start education and informative advertising campaigns (Cheteni, 2014, p. 103). A serious issue must be corrected amongst others, which is many people even in some Muslim countries believe that Islamic finance is only based on religious background, and never try to search and focus on its economical competency neither on what foundation certain financial transactions are prohibited. This image affects negatively the adoption of Islamic banking system. They got used to dealing with conventional banks. It is not about conviction as much as is it about trying to understand and being aware of products offered from the process to the details.

Perceptions and lack of information associated with Islamic Banking then, are creating resistance and unwillingness in a time where banks for example, are considered as the backbone of economy, and where conventional banks are dominating the financial system. Therefore, Islamic banks and all Islamic financial institutions are in the necessity to offer viable, competitive (quality/price) products and services, in order to surpass the conventional loans and finance. And foremost, serious marketing efforts are needed to attract customers.

In this regard, marketing is significantly about perception. Most people assume that the ever-present challenge to attract customers is achieved by the financial services organization providing the best products and services. Those that who succeed are the providers whom customers believe are the best. Obviously, the quality of products and services is important but the customer is also influenced by other factors such as their perception of brand, reputation, competitors, status, etc. So, the real challenge is to win over their minds (Wilson, 2006, p. 16), to change their perception of Islamic banking producs and making them aware about the principles and goals. The mental image that people have now is totally different from the real concept of Islamic finance. It is high time Islamic banks changed their marketing strategies.

2.3. Marketing as key driver to awareness

Marketing in its simple definition, is to make people know about a specific product or service, through a wide range of tools and methods. It contains many types, and represents a bridge between the enterprises and customers. Financial institutions as well, have to set their marketing plan in order to keep pace with constant changes and worldwide advancements.

According to (Wilson, 2006, p. 6), the concept of Marketing embraces selling, advertising and public relations, but its total sphere is much broader. The aim of marketing is identifying, anticipating and satisfying customer requirements profitably. Realizing marketing objectives goes through an important process of planning and executing the conception, pricing, promotion and distribution of ideas, goods and services. And foremost, focusing on marketing's key elements that are getting the right goods, to the right people, in the right place, at the right time, at the right price, with the right level of communication profitability.

Thereof, the role of marketing is above all, to create links between a business and its customers or prospects. It is used to design and offer products or services that will satisfy company's customers when trying to understand and analyze the demand. It enables a company to understand customer expectations and the market situation in which it operates; and thus, try to influence the behavior of costumers in the direction of its objectives.

In the financial sector, Marketing plays an informative role. It can be used to reach out customers and explain to them the benefits of depositing their money with the bank, to retain their existing customers and attract new ones. Due to the increase of competition, it has become imperative for banks to use marketing tools to increase awareness of their products. Since the financial services sector embraces every area of the business comprehensively, with the ultimate aims of identifying and meeting customer needs, maximizing customer retention and attracting new business. It is necessary to put customer in the center of any business, in order to survive, grow (Wilson, 2006, pp. 15, 17, 18), and in these fast-changing times, to stand still.

It is a must to let the potential customers know about the offerings in addition to the loyal customers, in other words, what the business has to offer the market must be communicated to potential customers. Because, how else will you make people aware that you're selling a product or service? How else would costumers know about Islamic banking products, about the details of Islamic financial contracts, and the various types of financing, if not with the right diffusion of the right information? Marketing drives product awareness, cultivates brand credibility, builds trust among your target buyers and provides value to your audience in the form of information, entertainment and inspiration. The figure below resumes the interconnections between the three aforementioned notions.

Figure (1): Knowledge, marketing and awareness linkages.

Source: by the authors based on previous paragraphs.

3. AN OVERVIEW ON ISLAMIC BANKING GOBAL ACTIVITY AND PRODUCTS

The activity of each component of this industry is drawing a brilliant way and is opening new prospects for different financial needs, according to the latest reports of Islamic finance services. In this chapter, a brief outlook on Islamic finance assets, Islamic banking and products.

3.1. Islamic Banking dominates Islamic finance assets

Islamic banking resources must be directed towards real and long-term assets, as Islamic finance is directly linked an oriented to real economy. According to (ICD-Refinitiv, 2020), Islamic finance assets is in a continuous growth and may reach more than 4,9 US$ Trillion in 2025. And they are still concentrated in the GCC region (48.9%), Middle East and South Asia region (24.9%), South-East Asia region (20.3%), Africa region (1.7%), and Others (4.3%) (IFSB, 2021).

Figure (2): Islamic finance assets growth from 2012-2020 (Trillion US$)

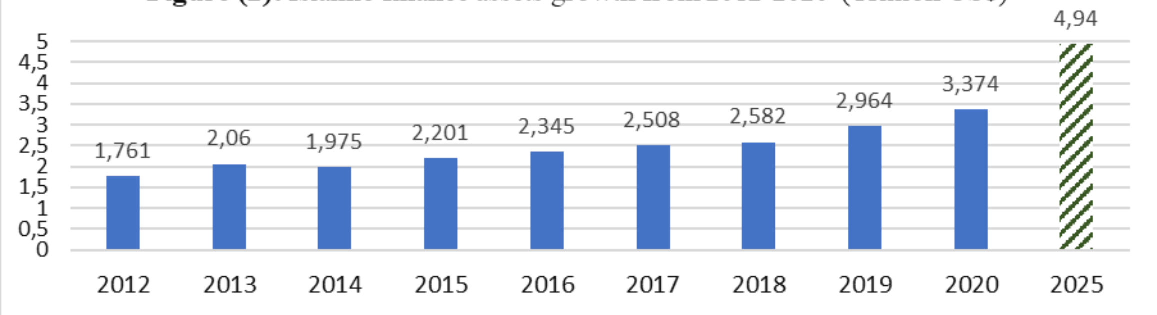


Figure (3): Islamic Banking assets compared to IFIs (2020, US$ Bn)

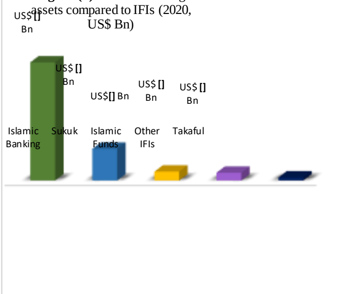
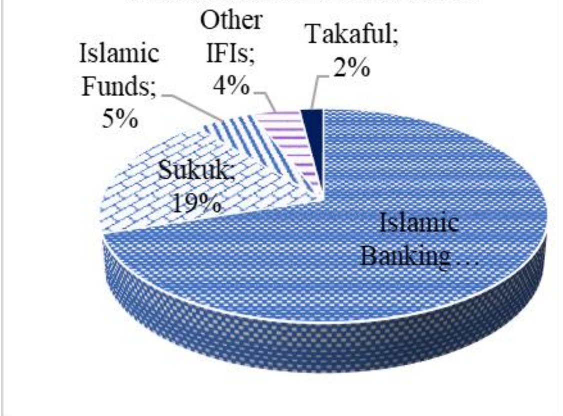


Figure (4): Part of Islamic Banking of total Islamic finance assets

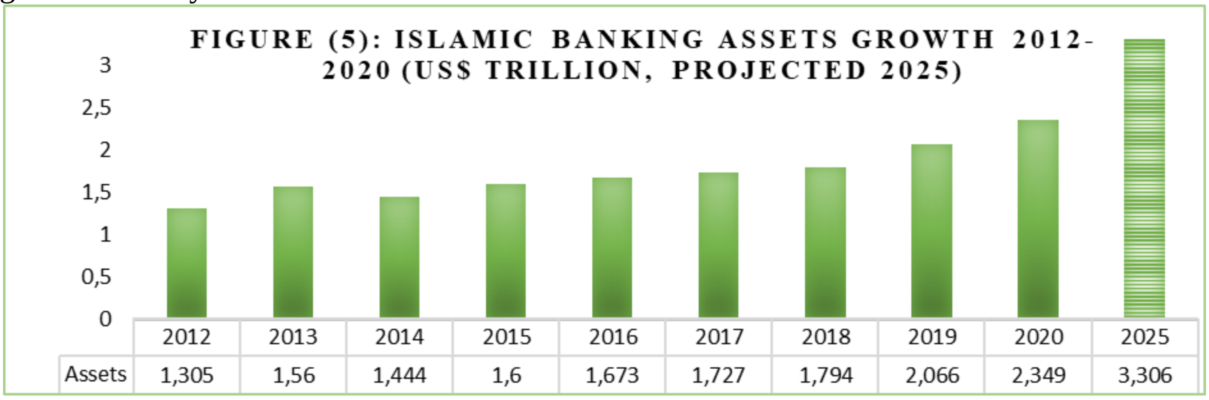


Sources: (ICD-Refinitiv, 2020) & (Refinitiv, 2021).

Islamic finance industry is a fast growing one, its assets in 2020 have almost reached US$ 3,4 trillion. And the global number of Islamic financial institutions is more than 1595 institution in 2020. With regard to Islamic banking, it is the largest contributor to Islamic finance industry (70%), and still hold the most assets across all industry sectors with an amount estimated at more than US$ 2.3 trillion and a year-to-year growth of 14% (Refinitiv, 2021) in an unprecedented pandemic year. It is followed by the two sectors operating in capital markets (24%); Sukuk US$ 631 Bn, and Islamic funds US$ 178 Bn. Meanwhile Takaful assets represent only 2% of total assets with an amount of US$ 62 billion.

3.2. Islamic Banking global activity

Islamic banks have grown to create a market that is competitive for conventional banks in several Islamic countries (Alpen Capital, 2021, p. 11) especially in this time where worldwide countries are facing economic changes and challenges as the current pandemic covid-19 and technological development. Islamic banking thus, may bring a new breath to the global economy.



	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Assets	1,305	1,56	1,444	1,6	1,673	1,727	1,794	2,066	2,349	3,306

Source: (ICD-Refinitiv, 2020) & (Refinitiv, 2021)

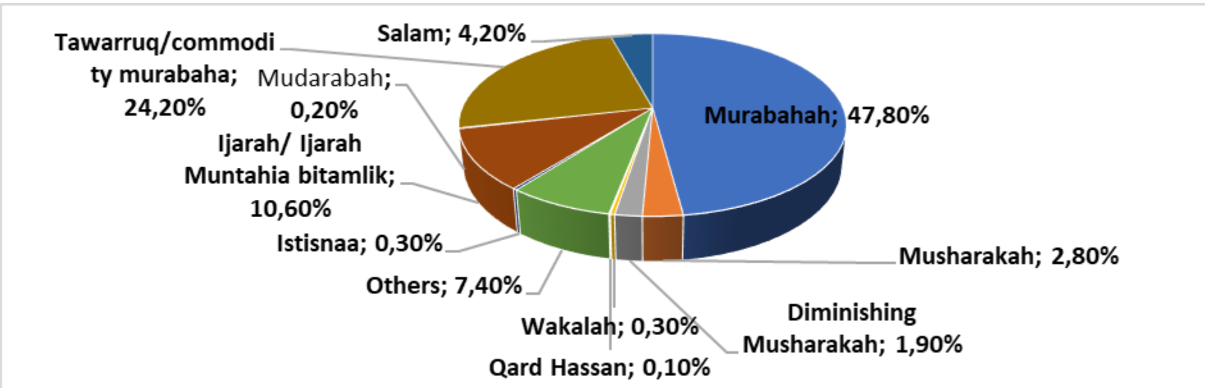
As the largest contributor to the global Islamic finance industry, Islamic banking assets value has reached about US$ 2 Trillion in 2019, with a growth rate estimated by 12.7% compared to 0.9% in 2018. The growth recorded according to (IFSB, 2020) is due to an improvement in the Islamic banking assets in some jurisdictions, especially the GCC region which witnessed significant mergers of Islamic banks to strengthen competitiveness, attract stable deposits and enhance efficiency.

The year of 2020 was characterized by significant economic impacts, however, Islamic banking assets reached more than US$ 2.3 Trillions. Furthermore, in terms of top jurisdictions for Islamic banking assets, Saudi Arabia accounted for 28.5% (2019: 24.9%), while Iran accounted for 22.1% (2019: 28.6%), Malaysia 11.4% (2019: 11.1%), the UAE 9.2% (2019: 8.7%) and Qatar 6.5% (2019: 6.1%), making up the top five jurisdictions. The other countries in the top 10 Islamic banking jurisdictions, in order of size, are Kuwait, Bahrain, Turkey, Bangladesh and Indonesia (IFSB, 2021, p. 9).

3.3. Islamic Banking products global activity

The contracts, formulas or products of Islamic banks, offer multi solutions to several financial needs, especially in the current era where Islamic finance industry is witnessing high levels of growth and prosperity, and is attracting more costumers. Currently, debt-based contracts are dominating the global use of contracts.

Figure (6): Financing by types of Islamic contracts



Source: (IFSB data, 2021)

Murabaha (36%), *Tawarruq* (24.2%), and *Ijarah* (13.9%) are the top three of general contracts use according to the Islamic financial services board. Among the various financing products offered by the Islamic banks, *Murabaha* is very popular, due to its simplicity and flexibility in offering short term financing to small, medium, commercial as well as corporate entities. Mudarabah, on the other hand, is still in its infancy (Alpen Capital, 2021, p. 21).

Islamic banks have to enhance the share of financing on the basis of PLS, like *Musharakah*, and *Mudarabah*. Reducing dependence on debt-based traditional arrangements and debt creating modes like *Murabaha* (Cibafi, 2018, p. 6) and enhancing in the parallel side equity-based ones, would lead tremendous change in the economy, open new opportunities and also bring new prospects for both banks and their customers. A profit-and-loss-sharing and risk taking in lieu of risk transferring (World Bank; Islamic Development Bank Group, 2017, p. 86) financial system, would lead to greater equity, allocative efficiency, financial system stability, and gross domestic product growth. Moreover, equity-participation based Islamic system, once fully implemented, would automatically give us a world where "no inflation, no unemployment, no exploitation and no poverty exist" (Khan, 2010, p. 807).

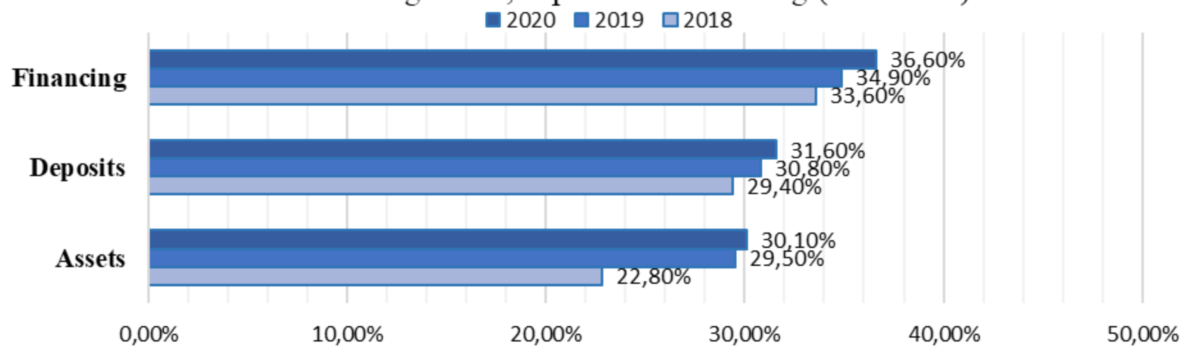
4. EVIDENCE FROM MALAYSIA

Malaysia is one of the top three countries in Islamic banking and finance, besides Saudi Arabia and Iran. The primary focus of this chapter is to explore Malaysia's key development factors. Starting with an examination of its market, to the deposits and financing products, and then an analysis built around the measurement of Malaysia's industry's infrastructure, including its management components and industry ecosystem; knowledge and awareness. Providing an insight on Malaysia's experience would serve as a model for developing other countries aiming at developing Islamic banking.

4.1. Islamic banking in Malaysia

Malaysia is at the forefront of Islamic finance, boasting the largest number of Islamic banks of any jurisdiction, a sophisticated Islamic capital market and an advanced legal and regulatory framework. According to Fitch Ratings, penetration of Islamic finance is likely to continue to rise supported by economic recovery, a conducive regulatory environment, and banks that continue to promote Islamic products (Alpen Capital, 2021, p. 20). As part of the 'Islamic First' strategy, household financing and banks promoted Islamic products, and the share of Malaysia of total Islamic banking is growing.

Figure (7): Share of Malaysia's assets, deposits and financing of total Islamic Banking assets, deposits and financing (2018-2020)



Source: by the authors basing on (Alpen Capital, 2021)

Malaysia's Islamic financing share of the total has been on the rise (36.6% of the total in 2020 compared to 30.6% in 2017) and grew 8.5% y-o-y during 2020, outpacing the growth in conventional banks (0.6%). Islamic banking assets in Malaysia grew to US$ 297 billion in 2019 after surging by 6.5% y-o-y during the previous year. On the other hand, deposits in Malaysia grew by 19.4% y-o-y and 8.0% y-o-y in 2018 and 2019, respectively, reflecting the healthy liquidity of the country's Islamic banking industry. Malaysia continues to enjoy a level playing field that is supported by the favorable demographics, supportive regulations and prudential banking requirements (Alpen Capital, 2021, p. 12).

Table (3): Largest Islamic Banks Outside GCC (US$ billion, 2020)

Banks	Assets	Deposits	Net Loans
Maybank Islamic	60.80	39.37	48.51
AmBank Islamic	40.30	26.91	25.24
CIMB Islamic Bank	27.74	23.02	20.18

Bank Rakyat**	26.82	20.77	18.08
RHB Islamic Bank	18.28	12.96	14.35
Bank Islam Malaysia	17.78	12.17	13.02
Public Islamic Bank	17.05	14.73	12.90
MBSB Bank**	11.80	6.21	7.94
Hong Leong Islamic Bank	9.71	8.05	7.08

Source: Banks annual reports 2020.

Remarkably, the amount of assets, deposits and financings have a direct relationship in Malaysian banks. Globally, Malaysia is the largest market in terms of assets for Islamic banking, accounting for 22.7% of the total assets of the 100 largest Islamic banks in 2019. 16 Islamic banks from the country featured amongst the 100 largest Islamic banks globally while six of them were amongst the top 20 (Alpen Capital, 2021, p. 15).

4.2. Exploring Islamic Banking Products in Malaysia

If the promotion of Islamic products contributed at the growth of Islamic finance and banking in the country, then there is a need to find out whether it is a key development. According to (Oracle financial services, 2017), Malaysian Islamic banks use two types of deposits accounts: Savings account based on *Wadiah, Mudarabah* (less popular than the first one), and *Qard*. The second type is Current account; based on the same previous mentioned products, but only *Wadiah* is actually offered to customers by Malaysian banks. In addition to Fixed deposit based on Mudarabah as the standard offering, in addition to commodity *Murabaha* and *Wakalah* which are gradually becoming more popular.

For financing, Islamic banks in Malaysia use contracts for several financial needs. For house financing *Murabaha* and diminishing *Musharakah* are popular. *Murabaha* is also used for vehicle financing in addition to *Ijarah*. This latter, is mainly used for equipment and financial lease. *Tawarruq* concept is very popular such as in monetization products and working capital financing. Meanwhile, Malaysian banks avoid financing projects on the basis of *Musharakah*, diminishing *Musharakah* or *Mudarabah*, as deemed too risky. In the table below, the value of financing by type in Malaysia.

Table (4): Value of financing by Shariah-compliant contracts in Malaysia (US$ Mn)

Indicator/Year	2015	2016	2017	2018	2019	2020	2021Q3
Number of Islamic banks	**16**	**16**	**16**	**16**	**16**	**16**	**16**
Total assets	**526 328,8**	**572 774,1**	**642 716,8**	**755 578,0**	**818 085,5**	**871 281,5**	**924 668,3**
Total financing	387 350,8	431 593,2	476 037,9	559 265,6	606 728,7	656 681,9	682 797,5
Murabaha	118 028,0	158 550,7	186 796,1	219 426,6	252 507,0	286 378,1	**305 133,6**
Istisnaa`	2 175,3	1 911,9	1 819,7	1 325,0	1 588,7	1 224,8	993,2
Ijarah/Ijarah Muntahia Bittamleek	80 882,0	79 047,5	80 674,1	82 398,7	80 397,6	84 049,4	**84 516,7**
Mudarabah	77,8	71,4	61,0	43,7	43,7	143,8	243,9
Musharakah	28 515,6	40 220,1	48 283,3	52 771,9	57 311,0	60 901,0	**64 908,8**
Al-Bai Bithaman Ajil	75 643,8	69 306,5	65 452,3	65 647,5	64 078,8	62 578,5	61 564,6
Others	82 028,2	82 485,1	92 951,5	137 652,2	150 801,9	161 406,3	**165 436,7**

Source: (IFSB data, 2021)

Since 2015 and before, *Murabaha* remains the most used Islamic financing contract, reached easily more than US$ 300 000 millions. Followed by *Ijarah* which slightly grew from (2015; US$ 80 000 Mn), to (2021; US$ 84 000 Mn). *Musharakah* and *Mudarabah* which are supposed to be at the core of Islamic finance, are still in their infancy compared to *Murabaha* and to their importance. Actually, trade-based financing modes, or debt-based contracts are acceptable for situations where participatory contracts are clearly unsuitable.

Thereof, there is a notable huge lack at promoting equity-based contracts, thus, Malaysia's essential growth is not mainly due to the efficiency of participatory contracts, since it has succeeded at being in the top three countries with a developed Islamic finance and banking. The following chart shows the huge difference between the use of the financing types.

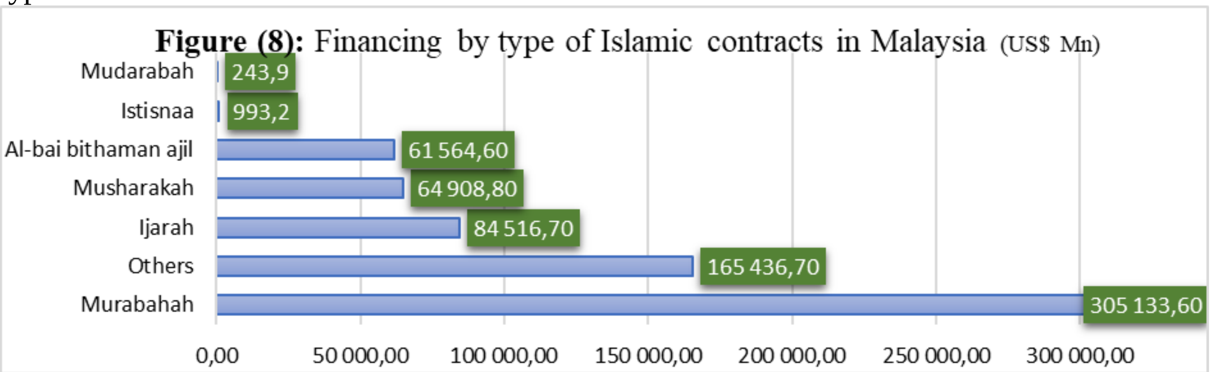


Figure (8): Financing by type of Islamic contracts in Malaysia (US$ Mn)

Source: by authors using previous table.

Thereupon, promoting Islamic banking products played a major role in the growth of the industry in Malaysia, even if *Murabaha* is dominating the total value of financing. It is clearly not enough to count on debt-based contracts, but it is worthwhile mentioning that Islamic contracts are also used in the other sectors of the industry, not only in Islamic banking. For example, Islamic funds are based on these contracts, relations within *Takaful* companies are managed through *Mudarabah* and *Wakalah*, and *Sukuk* are issued on the basis of these types.

Malaysia is already leader in Islamic capital market (ICM) dominating *Sukuk* and Islamic funds sectors, and with an efficient performance and promotion of its Islamic banking products through strategic marketing plans, is now in the forefront of Islamic industry and ranked first according to the Islamic finance development indicator (IFDI) which measures also the industry's infrastructure. It is necessary in this endeavor, to analyze the components of the IFDI, in order to find key factors of Malaysia's Islamic banking growth.

4.3. Analysis of industry's infrastructure in Malaysia: exploring knowledge and awareness importance

There is a noticeable great acceptance of Islamic banking products in Malaysia as it is working on 'Islamic first' plan, backed by the convenient infrastructure and ecosystem. The Islamic Finance Development Indicator (IFDI) provides the key factors driving development and growth in the global industry (Refinitiv, 2021, p. 12), and it draws on five indicators: Quantitative Development, Knowledge, Governance, Corporate Social Responsibility, and Awareness. Malaysia is the most developed country in Islamic finance according to the IFDI, followed by Indonesia, Saudi Arabia, Bahrain and UAE, respectively, making the top 5 in 2020.

Figure (9): Top countries according to Islamic Finance Development Indicator 2021

Rank	IFDI 2021	Knowledge	Awareness	Quantitative Development	Governance	CSR
1	Malaysia	Malaysia	Malaysia	Malaysia	Malaysia	KSA
2	Indonesia	Indonesia	Bahrain	KSA	Bahrain	Jordan
3	KSA	Pakistan	Indonesia	Iran	Kuwait	Nigeria
4	Bahrain	Bahrain	KSA	Kuwait	UAE	Kuwait
5	UAE	Jordan	UAE	Bahrain	Oman	Bahrain

Source: (Refinitiv, 2021)

The leading 15 countries on the IFDI indicator are from Islamic finance's four dominant regions: the GCC, Southeast Asia, Other MENA, and South Asia. Malaysia remained the first from IFDI 2015 to IFDI 2021, continuous efforts are made for this purpose. Except for Corporate social responsibility (CSR), where it doesn't even figure out among the top 5, Malaysia dominates the other four indicators: knowledge, awareness, quantitative development and governance. Each of these indicators, contains sub-indicators which will be discussed in the sections below.

- ✓ **Knowledge and Awareness sub-indicators in IFDI 2021**

The Knowledge indicator is assessed through Education and Research, the main building blocks for any knowledge-based industry. Awareness from its side, is measured by assessing three components: conferences, seminars, and news volume. Knowledge is the cornerstone for awareness, and Malaysia dominates both indicators. Along with promoting Islamic contracts, would enhance understanding of the industry's components and fundamental principles, and can open new prospects for financing.

Table (5): Malaysia dominates knowledge and awareness sub-indicators.

Rank	Knowledge		Awareness		
	Education	**Research**	**Seminars**	**Conferences**	**News**
1	Malaysia	Malaysia	Malaysia	Malaysia	Bahrain
2	Indonesia	Indonesia	Indonesia	KSA	Malaysia
3	Jordan	Tunisia	Pakistan	Indonesia	UAE
4	UAE	Pakistan	KSA	Pakistan	Oman
5	Bahrain	Brunei D.	Bahrain	Qatar	KSA

Source: (Refinitiv, 2021)

The number of countries contributing to the Knowledge indicator increased, yet Malaysia remained top of both sub-indicators. Education and research are the key factors of a deep understanding of Islamic finance competency and capacity of enhancing the economic development. Additionally, Malaysia has published an educators' manual on Shariah standards and operational requirements (ICD-Thomson Reuters, 2017). As a country, Malaysia is a leading educator in Islamic banking and finance by forming experts and professionals in the field, outclassing general and superficial outlooks.

For awareness, according to (FitchRatings, 2021), in developed Islamic-finance markets -which includes Malaysia- awareness, confidence and demand for Islamic products remain the highest. Islamic banking in this jurisdiction has achieved systemic importance and mainstream relevance. Awareness and acceptance are rising in Malaysia in a way that it also dominates the sub-indicators; seminars and conferences, and is ranked second in news volume providing. It is reported (Refinitiv, 2021, p. 69) that a rise in number of any of these components would contribute to the growth of a country's Islamic finance industry and an improvement of products and services' quality offered by the financial institutions.

It is worthwhile mentioning that Malaysia is also one of the most important countries in Islamic finance course providers. In 2016, the central bank of Malaysia (Negara bank), has established the Steering Committee for Transformation of the Education Landscape for Islamic Finance, tasked with providing a clear strategic direction for talent service providers in the country. The steering committee consists of Bank Negara's affiliates in Islamic finance education: the International Centre for Education in Islamic Finance (INCEIF), the International Shariah Research Academy (ISRA), the Islamic Banking and Finance Institute Malaysia (IBFIM), the Chartered Institute of Islamic Finance Professionals (CIIF), and the Association of Shariah Advisors (ASAS).

Thereupon, Malaysia is doing serious efforts at spreading awareness of Islamic finance and knowledge. Through establishing education and research institutions for Islamic banking and finance concerns, it opened the doors to researchers from one side, and from the other side, enhanced its share in this industry by joining forces of education, research, and awareness, to the Islamic financial institutions. This synergy reinforces economic linkages since Islamic finance is a knowledge-based industry, and makes of Malaysian steps in mastering this field, an example to other countries aiming at reaching this level of Islamic banking growth.

✓ **Quantitative development sub-indicators IFDI 2021**

Due to the large plans of awareness and education that Malaysia worked on, and the marketing of its Islamic banking products, it is now perceived as the most developed Islamic banking system. Yet, the Islamic capital market have in the parallel side, a considerable part of the development. The three top countries – Malaysia, Saudi Arabia and Indonesia together accounted for 77.5% or US$ 417 billion of the global market (Alpen Capital, 2021). The market share of Malaysia amounted to more than the half of it, for around US$ 242 billion. Thereof, the sub-indicators of quantitative development are the Islamic financial institutions.

Table (6): Islamic capital market institutions upholding quantitative development.

Rank	Islamic Banking	Takaful	OIFIs	Sukuk	Islamic Funds
1	Syria	KSA	Iran	Malaysia	Malaysia
2	Bahrain	Iran	Kuwait	KSA	KSA
3	KSA	Maldives	Malaysia	Indonesia	India
4	Iran	Malaysia	KSA	UAE	Luxembourg
5	Sudan	UAE	Bahrain	Qatar	Iran

Source: (Refinitiv, 2021)

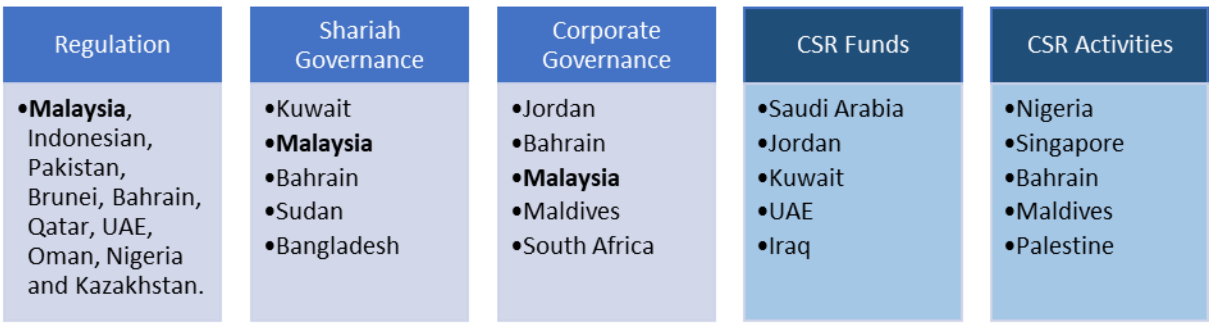
Islamic banking, Takaful, and other Islamic financial institutions (OIFIs) are not actually dominated by Malaysia. The country is not even among the top five in Islamic banking, yet first ranked in IFDI 2021 and in quantitative development indicator. Islamic funds and *Sukuk* sectors backed up the development of this indicator.

In addition to the promotion of Islamic banking products, that is rising the share of Islamic banking assets, deposits and financing, even if it doesn't appear among the top 5 countries. The focus of Malaysia overpass Islamic banking to the other Islamic financial institutions. Each institution has its leading characteristics, and contribute at the growth of the Islamic industry, at achieving economic development and even at the stability of the financial system given its direct linkage to real economy. Thereupon, even if developing a country's Islamic banking is also developing its global Islamic finance, there is an absolute necessity to share the focus between all Islamic financial institutions.

✓ **Governance and CSR sub-indicators 2021**

Nonetheless, in addition to the above-mentioned factors of development, it is necessary to not deny the regulatory aspect and the legal framework. Governance indicator includes regulation, Shariah governance and corporate governance. Corporate social responsibility concerns funds and activities.

Figure (10): Governance and CSR sub-indicators in IFDI 2021.



Source: (Refinitiv, 2021)

The microenvironment and macroenvironment consist of the internal and external elements (in the immediate or in the longer term) that can affect the ability of an institution or influence its performance. The first can somehow be controlled by the institution, as for setting the marketing plan to influence and attract customers. But the second, is out of direct control, for example political, legal and regulatory framework.

In this endeavor, Malaysia is giving a special attention to the legal aspect to support the Islamic banking given that the environment within these institutions operate is not static and can either facilitate or complicate the interconnected operations of the industry's infrastructure. Thereof, Malaysia is ranked among the top three in regulation, Shariah governance and corporate governance. A plan backed up by these three vital aspects, ensure a continuous development and growth of a country's Islamic finance and banking.

5. CONCLUSION

In the end, the gap between the real fundamental principles of Islamic banking and people's perceptions of Islamic banking products must be addressed, in order to rise acceptance and awareness from one side, and to open doors for the real use of Islamic banking products, as they have the capacity to offer a wide range of solutions to projects. It is necessary in this endeavor, for this knowledge-based industry, to set the best marketing plans for Islamic banking products in particular and for Islamic finance and banking in general. The three notions – Knowledge, marketing, awareness- are interconnected, as the first one serves marketing, and marketing in its turn rises and drives awareness. They together, are indeed key factors of a country's Islamic banking development as it is the case with Malaysia.

Simultaneously, the development of this industry requires to focus on the growth of each financial institution, and not on one institution's expense. Additionally, a supportive legal framework and an adequate environment for this industry are absolutely necessary, given the nature Islamic banks such as relations with the country's central bank. Furthermore, upholding Islamic banking and finance is at the same time an achievement of a system's financial stability due to the linkages with real economy from a side, and from another side a boost of a country's economic development. Thereupon, joining forces of economic actors, regulators, authorities, Islamic banks, academics and research institutions is a must, and a solution to tremendous concerns. The process is a long one but it has the merit to begin.

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