

Islamic Banking and Finance in Theory and Practice: The Experience of Malaysia and Algeria

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Abstract : This paper's primary objective is to identify the relative importance of various Islamic financial products, in theory and in practice, by examining the financing records of the Bank Islam Malaysia (Berhad) and the Algeria Islamic Bank. Currently, seven available Islamic financing products are considered viable alternatives to interest-based conventional contracts: mudarabah (trust financing), musharakah (equity financing), ijarah (lease financing), murabahah (trade financing), qard al-hassan (welfare loan), bay` bi al-thaman al-ajil (deferred payment financing), and istisna` (progressive payments). Among these financial products, mudarabah and musharakah are the most distinct. Their unique characteristics (at least in theory) make Islamic banks and Islamic financing viable alternatives to the conventional interest-based financial system. The question before us is to determine the extent of mudarabah and musharakah in Islamic financing in practice. The data are as follows: the average mudarabah is 5% of total financing, and the average musharakah is less than 3%. The combined average of mudarabah and musharakah for the two Islamic banks is less than 4% of the total finance and advances. The average qard al-hassan is about 4%, while istisna` does not yet exist in practice. Murabahah is the most popular and dominates all other modes of Islamic financing. The average use of murabahah is over 54%. When the bay` bi al-thaman al-ajil is added to the murabahah, the percentage of total financing is shown to be 82.68%. This paper also explores some possible reasons why these two Islamic banks appear to prefer murabahah to mudarabah and musharakah.

Keywords : Islamic banking, Islamic finance, Islamic banking profitability, investment banking

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