

Characteristics of GCC Islamic Banks Investment in Malaysia

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Abstract

Islamic banking and finance services between the GCC countries and Malaysia have entered into an optimistic phase. With the growing demand for the Islamic financial services from Muslim investors, traders as well as consumers, there are now numerous banking and financial institutions from the GCC countries investments in Malaysia. This is due to its popularity of being the Islamic financial hub in the South East Asia. It is the main target for GCC Islamic banks for providing Islamic finance services to the region. This study investigates the characteristics of GCC Islamic banks that have invested in Malaysia. Data was obtained from different research strands: prior documentation and other related databases, Internet searches, websites, libraries; progress reports. Semi-structured interviews and literature survey and problem definition have been done. The dataset consists of all GCC Islamic banks listed in Bank Negara Malaysia during the period 2005-2015. This study concluded that there are 6 GCC Islamic banks that have investments in Malaysia, these banks are named Al Rajhi bank, Kuwait Finance house, Asian Finance bank, Alkhair International Islamic bank, Elaf bank and RUSD Investment bank. They are all Islamic banks and one of them, Elaf bank was acquired by another bank and was removed from the list of licensed banking institutions in Malaysia.

Keywords: Characteristics, Islamic banking and finance, Investment, Gulf Cooperation Council and Malaysia.

1. Introduction

Islamic financial transactions are not new; Muslims have been trading goods and services in accordance with Islamic concepts for a long time. However, it appears that the Nasser Social Bank which started the business in Egypt in 1971 was the first institution that applied Islamic concepts to banking (Iqbal and Molyneux 2004). Since that time, many Islamic financial institutions have been established not only in Islamic countries but also in non-Islamic countries. Moreover, among Southeast Asian countries, Malaysia is at the forefront with regard to the introduction of Islamic Finance. Malaysia has promoted an Islamic financial system since 1983 when the Bank Islam Malaysia was

established. Ten years after its establishment, the government started the Islamic Banking Scheme, which allowed banks to inaugurate Islamic banking in order to diffuse services throughout the country and to make the business environment more competitive. Due to this government policy, the number of banking institutions providing people with Islamic banking services has increased. Nakagawa, R. (2009)

Malaysia is one of the most progressive and attractive Islamic financial sector in the world. The first Islamic bank in Malaysia was established in 1983, named Bank Islam Malaysia Berhad. The establishment of BIMB is a major step towards an Islamic financial system in Malaysia. In 1993, commercial banks, merchant banks and finance companies began to offer Islamic banking product and services under Islamic banking scheme. However, these financial institutions offering Islamic banking product and services have to separate the funds and activities of the Islamic banking transactions from the conventional banking. Currently, there are 16 Islamic banks/windows in Malaysia Abduh and Idrees (2013).

Gulf Cooperation Council (GCC) is the largest economic group in the Middle East region and ranks at number 17th in the global economy. The Gulf Cooperation Council (GCC) is originated by six nations in the gulf region including United Arab Emirates, State of Bahrain, Kingdom of Saudi Arabia, Sultanate of Oman, State of Qatar and the State of Kuwait.

From the recent development, apparently, Malaysia has been successful in attracting GCC investors to put their money in its economic development specifically in the new economic project (IDR). Indeed, Gulf's investors, are a major contributor to the project's development. Apart from a government incentive and the country's attractiveness, this new emergence of huge GCC investment in this country has also been contributed to the financial facilities, especially the Islamic Finance institutions which have been widely established in Malaysia either local Islamic Banking or foreign Islamic Bank particularly from GCC countries (Haider, 2007).

Islamic banking and finance have taken place enormously in both GCC's and Malaysia's financial system. With the growing demand for the Islamic financial services from Muslim investors, traders as well as consumers, numbers of banking and financial institutions from Malaysia have been launched in the GCC countries and the other way around. Bahrain, the Islamic financial hub in the GCC region is the main target for Malaysian bankers such as; CIMB Islamic Bank and Maybank, to operate in providing Islamic finance services in the region. On the other hand, some of the GCC Islamic banking have also operated their services in Malaysia. Ar-rajhi bank and Kuwait Financial House (KFH) are among the well-known GCC's bank providing Islamic banking services in Malaysia AbRahman and Abu-Hussin (2009).

Although overall, there is little research that addresses the relationship between GCC Countries and Malaysia especially in the area of Islamic Finance, some exceptions do exist. Noteworthy is, for example, the empirical contributions by AbRahman and Abu-Hussin (2009). Moreover, a real and full attention have not yet been given to these GCC Islamic financial institutions listed in the list of banks licensed in Bank Negara Malaysia. Analytical studies and scientific researchers are almost still lacking on the trends, developments and the challenges ahead between Malaysia and GCC, which means that the academic researchers still did not generally dwell upon the characteristics of the GCC Islamic banks listed in the Malaysian context.

2. Literature Review

This section reviews the most relevant studies on GCC Islamic banks and Islamic banking industry, Islamic Banking industry has recently grown enormously and has expanded widely, reaching several international financial centers, reflecting an increasing interest in Shariah compliant products and services. Islamic Banking is based on profit and loss sharing between the bank and the borrower (Khan and Mirakhor, 1991). Furthermore, Islamic Banks combine commercial banking activities and investment banking operations in order to generate acceptable rates of return for depositors but in

compliance with Islamic rules and principles (Al-Kassim, 2005). Unlike conventional banks, where money is considered as a commodity that can be bought and sold, Islamic Banks treat money as a means to facilitate transactions for trading purposes.

Islamic Banking is based on profit and loss sharing between the borrower and the bank (Khan and Mirakhor, 1991). Islamic Banks maintain profit by mixing investment and commercial banking operations to engage in acceptable rates of return for depositors but in accordance with Islamic rules and principles. Islamic Banking rules are based in accordance with the Islamic Shariah derived from the Quran and prophet Mohamed's (peace be upon him) sayings. The three main practices clearly prohibited in the Quran and the prophet's sayings are Riba (Interest), Gharar (Uncertainty), and Maysir (Betting).

One turning point for the Malaysian Islamic banking sector was the Asian Currency Crisis of 1997, which severely affected the financial sector. This experience led the government to help the sector develop as a more resilient industry (Mohammed et al., 2014). In 2001, the Central Bank published the Financial Sector Master Plan (FSMP) in which several policies for the sector's development were presented Kuran, (2004). One objective of the FSMP was to promote a more efficient and resilient financial sector. The FSMP provided development policies not only for the conventional banking sector but for the Islamic banking sector. First, the Central Bank set 20% as a target share of the Islamic banking sector which must be achieved by 2010. Toward this, the Central Bank set a target each year which rose gradually (Algaoud and Lewis, 2007). In 2004, Bank Negara Malaysia announced that they would give Islamic banking licenses to three foreign banks. After a considerable screening process, three banks from Middle Eastern countries obtained licenses and started their business: Al Rajhi Banking & Investment Corporation (Malaysia) Bhd., Kuwait Finance House (Malaysia) Bhd., and Asian Finance Bank Bhd (Mason and Omar, 2005). Furthermore, in 2005, the Central Bank stated that conventional domestic banks were able to obtain full-fledged Islamic banking licenses. In response to this, some leading banks opened full-fledged Islamic banking offices.

Furthermore, for Islamic Banks to a make profit and to satisfy the borrowers' needs of cash, they have to conduct transactions that do not violate Islamic rules by looking for allowed contracts that can achieve the required goal. Mostly, they are based on sale and purchase transactions, accompanied by a degree of risk. There are five main contracts: Mudarabah, Musharakah, Murabahah, Ijarah and Salam.

- i. *Profit and loss sharing (Mudarabah)*: is a contract between two parties; one provides the capital and the other provides the labor to form a partnership to share the profits by certain agreed proportions.
- ii. *Joint venture (Musharakah)*: is a financial contract between two or many parties to establish a commercial enterprise based on capital and labor. The profit and loss are shared at an agreed proportion according to the amount of contribution (Hassan and Zaher, 2001).
- iii. *Cost plus (Murabahah)*: refers to a sale of a good or property with an agreed profit against a deferred or a lump sum payment. There are two contracts in Murabahah: the first contract is between the client and the bank, whereas the second contract is between the bank and supplier. The client (purchaser) orders a certain commodity through the bank, the bank then buys the commodity from the supplier and sells it to the client with specified profit whereby the client can make a lump sum or a deferred payment to the bank (Iqbal and Molyneux, 2005).
- iv. *Leasing (Ijarah)*: in which two parties are involved therein: the lessee and leaser. The leaser (bank) is the real owner of the asset or property and it is rented out to the lessee until full payment is received. The lessee has the option to keep the asset at contract maturity or give it back to the bank. If all payments are received, the lessee can keep the asset but at a higher price than the usual asset price (Iqbal and Molyneux, 2005).
- v. *Salam*: is another contract where full payment for a good is paid in advance but the delivery of the good is made at an agreed future date (Iqbal and Molyneux, 2005).

In addition, as the Islamic banking system developed, services offered by Islamic banks and banking institutions under Islamic Banking Scheme have become diversified (Table 1). Islamic banking services are very similar to those in conventional banks; however, some distinct differences can be observed. For example, current accounts and savings accounts are under Wadiah Yad Dhamanah (deposits with guarantee), Mudharabah (profit-sharing), and Qard (interest-free loan); depositors are guaranteed repayment of the whole amount of deposits and have no right to receive any return from Islamic banks. Islamic banks, however, may provide depositors with returns as gratitude because of the other concept of Mudharabah. In the case of investment accounts, money in a general investment account under Mudharabah (profit-sharing) and Qard (interest-free loan) is for an Islamic bank to invest in projects without instruction from depositors, whereas depositors with special or specific investment accounts under Mudharabah (profit-sharing) are able to instruct the bank as to which project to invest in (Nakagawa, 2009).

Table 1: Islamic Banking Services in Malaysia with its Concept of Shariah

Name of Product	Islamic Banking Products	The Concept of Shariah Used
Deposit	current account-i savings account-i commodity Murabahah-i	Wadiah Yad Dhamanah, Mudharabah, Qard Wadiah Yad Dhamanah, Mudharabah, Qard Murabahah / Tawarruq
Investment	general investment account-i special investment account-i	Mudharabah, Qard Mudharabah
Financing	asset financing-I asset-backed financing-i benevolent loan-i block discounting-i bridging finance-i bungalow lots financing-i	Tawarruq / Murabahah, Mudharabah Musharakah, Ijarah Ijarah Qard Bai'' Dayn Istisna'', Bai'' Bithaman Ajil Bai'' Bithaman Ajil
Name of Product Financing	Islamic Banking Products cash line facility-i club membership financing-i Commodity Murabahah Financing-i computer financing-I contract financing-i	The Concept of Shariah Used Bai'' Inah, Bai'' Bithaman Ajil, Murabahah Bai'' Bithaman Ajil Murabahah, Tawarruq Bai'' Bithaman Ajil Murabahah, Bai'' Bithaman Ajil, Istisna
	education financing-i equipment financing-i factoring facility-i fixed asset financing-I floor stocking financing-i hire purchase agency-i home/house financing-i	Musharakah, Mudharabah, Ijarah Murabahah, Bai'' Bithaman Ajil, Bai'' Inah Bai'' Bithaman Ajil Bai'' Dayn Bai'' Bithaman Ajil Murabahah, Bai'' Bithaman Ajil Wakalah Bai'' Bithaman Ajil, Istisna''
	industrial hire purchase-i land financing-i leasing-i pawn broking-i	Variable Rate Bai'' Bithaman Ajil Ijarah Bai'' Bithaman Ajil Ijarah Rahnu (Qard and Wadiah Yad Dhamanah)
	personal financing-i plant & machinery financing-i project financing-i	Rahnu (Qard) Bai'' Bithaman Ajil, Murabahah, Bai'' Inah Bai'' Bithaman Ajil, Istisna, Ijarah Bai'' Bithaman Ajil, Istisna, Ijarah Musharakah, Mudharabah Tawarruq / Murabahah
	property financing-i	Bai'' Bithaman Ajil, Istisna Variable Rate Bai'' Bithaman Ajil
	revolving credit facility-i	Bai'' Bithaman Ajil, Murabahah, Hiwalah, Bai'' Inah

	share financing-i shop house financing-i	Bai ^{''} Bithaman Ajil, Bai ^{''} Inah Bai ^{''} Bithaman Ajil, Istisna ^{''}
	sundry financing-i syndicated financing-i term financing-i	Variable Rate Bai ^{''} Bithaman Ajil Bai ^{''} Bithaman Ajil Istisna ^{''} , Bai ^{''} Bithaman Ajil, Ijarah Bai ^{''} Bithaman Ajil, Variable Rate Bai ^{''}
	tour financing-i umrah & visitation financing-i vehicle/automobile financing-i working capital financing-i	Bithaman Ajil Bai ^{''} Bithaman Ajil Bai ^{''} Bithaman Ajil Ijarah, Bai ^{''} Bithaman Ajil, Murabahah Murabahah, Bai ^{''} Bithaman Ajil, Tawarruq / Murabahah, Musharakah, Mudharabah
Trade Finance	accepted bills-i bank guarantee-i bills of exchange-i export credit refinancing-i letter of credit-i shipping guarantee-i trust receipt-i	Murabahah, Bai ^{''} Dayn Kafalah Wakalah Murabahah, Bai ^{''} Dayn Wakalah, Murabahah, Ijarah, Bai ^{''} Bithaman Ajil Kafalah Wakalah, Murabahah
Card Services	charge card-i credit card-i debit card-i home/house financing-i	Qard Bai ^{''} Inah, Bai ^{''} Bithaman Ajil Ujr Bai ^{''} Bithaman Ajil, Istisna ^{''} s

Note: 1. This table lists only major products and may be updated by Bank Negara Malaysia from time to time.

2. For the meaning of each Shariah concept, see Appendix.

3. "" in the table means "Islamic".

Islamic banks operate in over sixty countries, though mostly concentrated in the Middle East and Asia (Zaman and Movassaghi, 2001). In most of these countries, the banking system is dominated by conventional banking institutions with Islamic banks operating alongside.

The GCC region has a rich history of banking going back to 1918. The first bank was opened in Bahrain by the British in August 1918. The banking industry in the GCC region has several features that make it unique and different from the banking sectors in many other regions. First, the sector is heavily dependent on oil sector activities. Second, the banking industry's main lending activities are concentrated in construction, real estate, and consumer loans. Third, the industry is heavily protected from foreign competition and dominated by the government. The banking sector is one of the largest sectors in the economy of the GCC region and there are more banks stocks traded in GCC stock markets than stocks of any other industry (Zoubi and Olson, 2007).

While the GCC is still a major global hub for Islamic financing (42% of total Islamic assets worldwide in 2012), (Kern, (2012) Malaysia has developed into the largest Sukuk market worldwide. According to Standard and Poor's (2013), this development led to an increased interdependence of Sukuk markets in GCC and Asia, as Sukuks are preferably issued in the Malaysian ringgit. Attracted by this growing market, a number of GCC banks opened subsidiaries in Malaysia Devadason, (2013). The current research paper addressed in order to discover the characteristics of GCC Islamic banks listed in the Malaysian Islamic finance industry and fills in the gap of research in this field.

3. Methodology

The focus of this research paper will revolve around the characteristics of GCC banks in Malaysian. The sample frame comprises of all GCC Islamic banks listed in Bank Negara Malaysia which encompass Bahrain, Saudi Arabia, Qatar, Kuwait, Oman and the United Arab Emirates during the period 2005-2015. The dataset consists of 6 GCC listed Islamic banks.

Firstly, secondary data was obtained from different research strands: prior documentation and other related databases. Internet searches, websites, libraries; progress reports; etc. It did not include

interviews as these collect primary data for analysis to generate information. A clear benefit of using secondary data is that much of the background work needed has already been carried out, for example: literature reviews, case studies might have been carried out, published texts and statistics could have been already used elsewhere, media promotion and personal contacts have also been utilized.

Secondly, preliminary information gathering was chosen. Semi-structured interviews and literature survey and problem definition are done. Interviews are conducted, the next step for the research is to tabulate the various types of information that have additionally been gathered during the interviews and to determine the patterns in the responses.

4. Findings

Above all, after having some of the primary data surveys through semi-structured key informant interviews undertaken with some representatives of the Arab Malaysian chamber of commerce (AMCC), INCEIF, Malaysia International Islamic Financial Centre (MIFC) and Bank Negara Malaysia (BNM) the researchers have got this kind of information. From reviews of literature and verification of the publications through the media in recent times for the period year 2010 to 2015, it indicated that Malaysia has been pursuing the enhancement of economic relations with the Gulf Cooperation Council (GCC), especially in the area of Islamic banking and finance.

The strengthened economic and financial ties between Malaysia and the Gulf Cooperation Council (GCC) represent a promising opportunity for the global Islamic finance industry to gain traction. Increased trade and investment flows will bring greater forces to contribute towards enhanced Islamic finance integration. Malaysia and the GCC's annual trade volumes have grown significantly from just USD627million in 1990 to over USD15bln in 2013.

The Islamic finance cross-border business and financial relationships between the GCC and Malaysia have grown in tandem with the blossoming trade and economic linkages in these two markets. In the Islamic banking sector, a number of GCC banks (including the world's two largest Islamic banks: Al-Rajhi Bank of Saudi Arabia and Kuwait Finance House of Kuwait) have set up operations in Malaysia, enhancing the cross transfer of expertise in the Islamic banking business among these markets. Economic growth in 2014 was characterized by a steady recovery and an ongoing shift to the "new normal" of more modest GDP growth in both advanced and emerging economies. Market demand, government incentives and rapid liberalization of the Islamic financial industry in Malaysia has fostered a dynamic and diverse community of foreign and domestic fund managers. These Islamic fund management companies can quickly build a Shariah compliant investment portfolio by investing in Malaysia multinational corporations with the regional reach around Asia. Islamic fund management companies can also tap on the country's centralized location to seek Shariah-compliant investing opportunities around the region.

There are a total of 6 GCC Islamic banks investment in Malaysia named: First bank is, Al Rajhi Bank which is the largest Islamic banking group in the world; recognized for being instrumental in bridging the gap between modern financial demands and intrinsic Islamic values. One of the fastest growing and most progressive bank in Saudi Arabia, it owes its banking excellence to its unwavering commitment to Shariah principles and the use of technology to offer diverse products to meet customer needs. The group has a vast network of more than 600 bank branches. Leveraging on its established principles and operations in the Middle East, Al Rajhi Bank ventured out as an international Islamic bank by setting up its first overseas operations in Malaysia, launched in February 2007. Operating on the same platform as the home bank, Al Rajhi Bank Malaysia extensively uses the latest banking technology to consistently provide customers with speed and convenience in banking. To date, it has expanded to 23 branches all over Malaysia, with plans to open more in the near future. The establishment of Al Rajhi Bank in Malaysia has set the standards within the Islamic banking industry, bringing an international class of services and products that are innovative and practical, while meeting the distinctive requirement of the clients. The establishment of Al Rajhi Bank in Malaysia has set the

standards within the Islamic banking industry, bringing an international class of services and products that are innovative in accordance with the highest ethical standards.

Second bank is: Asian Finance Bank a full-fledged Islamic Bank that was incorporated on 28 November 2005 and backed by a consortium of shareholders from leading Middle Eastern financial institutions – Qatar Islamic Bank (66.67%), RUSD Investment Bank (16.67%), Tadhamon International Islamic Bank (10%) and Financial Assets Bahrain W.L.L (6.67%). AFB is committed to being a global bank, offering a complete suite of Shariah compliant products in the consumer, corporate, commercial, treasury, investment banking and asset management services. AFB has a branch in Kuala Lumpur and Johor Bahru, and a representative office in Jakarta. Its competitive advantage is functioning as the bridge to provide corporate advisory, funding and networking services to sovereign and corporates between the Middle East and Asia; and vice versa. AFB also provides strategic and comprehensive corporate financial solutions capitalizing on the strength of its major shareholder, Qatar Islamic Bank, the first global Islamic investment bank with international funding capabilities.

The third bank is, Kuwait Finance House Malaysia (KFH Malaysia) which is the first foreign Islamic bank in the country. The Tier-1 capital of KFH Malaysia stands at RM1.17 billion and the Tier-2 capital is at RM375 million. Set up in 2005, the Bank serves as the regional headquarters of KFH in Asia-Pacific developing and providing innovative Shariah-based products and services. The KFH network is headquartered in Kuwait and also has operations in Bahrain, Turkey, Jordan, Saudi Arabia and Australia with affiliates in the United Arab Emirates, Oman, and Bangladesh.

Fourth bank is, Alkhair International Islamic Bank (formerly known as Unicorn International Islamic Bank Malaysia) was granted an International Islamic Bank (IIB) licenced by Bank Negara Malaysia on 14 December 2007, thus making it the first foreign Islamic bank to be licensed to conduct a full range of foreign currency investment banking activities under the Malaysia International Islamic Financial Centre (MIFC) initiative. Alkhair Malaysia is also listed as an approved financial institution by the Malaysian Ministry of Finance (MOF) to accept deposits from Governmental bodies. Alkhair Malaysia is a wholly-owned subsidiary of Bank Alkhair, headquartered in Bahrain. Established in 2004, Alkhair is an Islamic investment bank, with an international presence in Saudi Arabia and Turkey, alongside Malaysia. To date, Alkhair has advised, structured and successfully placed deals with a total value of over USD4 billion. Alkhair has achieved consistent growth since its inception and has received widespread industry recognition for excellence and vision.

The fifth bank is, RUSD Investment Bank Inc. which is an Islamic investment bank incorporated in Labuan, Malaysia and registered with the Labuan Financial Services Authority. RUSD Investment Bank Inc. is geared, committed and dedicated to becoming a leader in modern Islamic finance by developing competitive Shariah-compliant solutions. Serving the burgeoning Islamic financial services industry, RUSD Bank envisions itself acting as an important bridge between financial markets in South East Asia and the Middle East. RUSD Investment Bank offers a new facet of Islamic investment and financial services, in not only traditional asset management products, private placements, financial advisory services but also Islamic trusts with features similar to waqf (charitable trust), allowing settlor greater control in managing, investing and allocating their assets. Incorporated in August 2002 and based in Malaysia, the bank obtained its license in February 2003 and is regulated by the guidelines set by the International Business Finance Centre (IBFC), one of the leading regulatory bodies in the Asia Pacific Group.

The sixth bank is, Elaf Bank B.S.C. (Closed) which was acquired by Ibdar Bank BSC(c). Elaf Bank B.S.C. (Closed) operates as an investment banking company in the Kingdom of Bahrain. It offers financing and advisory transaction services to the cement, real estate, oil and gas, and financial services sectors. The company also operates a portfolio of investments that include quoted and unquoted Sukuk, structured finance, private equity, listed equities, and real estate assets. It provides financial services to clients in the Middle East and North Africa, Gulf Cooperation Council countries, and Southeast Asia. In addition, Elaf Bank B.S.C. (Closed) is involved in the management and trading of real estate properties. Elaf Bank B.S.C. (Closed), formerly known as Sokouk Exchange Centre, Tadawul B.S.C.

(Closed), was founded in 2007 and is based in Manama, Bahrain. Elaf Islamic Bank was incorporated as 'Al Baraka for Investment and Finance' in the year 2001 with an initial capital of Iraqi Dinar (IQD) 2 billion. The Bank transformed its operation to Islamic Banking from Conventional Banking in 2007 with an increase in capital of IQD 8 billion. In the subsequent years, the tangible equity share capital was augmented to IQD 20 billion in 2009, IQD 50 billion in 2010, IQD 100 billion in 2011 and IQD 152 billion in 2012. The Bank has no debt in its capital structure and has a risk-adjusted capital adequacy ratio of 18% in 2012 which is well above the limit stipulated by the Central Bank of Iraq and Basel II Accord. The asset and liability are well managed with prudent risk policies and oversight as well as the advice of the Board. The Bank got listed in Iraq Stock Exchange in 2011 with the ticker BELF. The concept is to offer convenient technologically advanced banking channels as well as simultaneously maintain enhanced the interpersonal relationship with our customers. It caters for individuals, corporate and financial institutions for their varied requirements with their products and services that are Shariah compliant and customizable. It appreciates and encompasses high moral values, integrity and professionalism in their banking practice that not only considers their clients, shareholders and banking peers but also the communities and the environment at large. However, unfortunately, this bank was delisted out of Bank Negara Malaysia in 2015.

Table 2: Characteristics of GCC Islamic banks investment in Malaysia

Banks	Launched	Headquarters' location	Size (Number of employees)	Number of branches	Language used	CEO Nationality	Number of expatriate managers
Al Rajhi	2007	Saudi Arabia	600	25	English and Arabic	Malaysian	5
Asian Finance Bank	2005	Qatar	90	2	English	Malaysian	Nil
Kuwait Finance House Alkhair	2005	Kuwait	500+	15	English	Malaysian	1
International Islamic Bank RUSD	2007	Bahrain	26	1	English	Malaysian	Nil
Investment Bank	2003	Saudi Arabia	37	0	English	Pakistani	Nil
Elaf Bank B.S.C	2011	Bahrain	-	-	-	-	-

Scholars have paid less attention to the critical role of GCC Islamic banks in Malaysia. Few studies that examined the empirical analysis allow researchers to shed some light on the relationship between bank characteristics of Islamic banks in Malaysia. Some of the findings were different from the previous studies done in Malaysia.

The growing trade links between Malaysia and the GCC represent strong opportunities for Islamic finance in general and Islamic trade financing, in particular, to expand the strong proliferation of the Islamic financial sectors in these countries. Given that the GCC and Malaysia are among the top 10 Islamic finance markets globally, the Islamic finance players have tremendous opportunities to support the ever-expanding trade between these markets with Shariah-compliant financial solutions. To put the relative sizes in context, the responsible investment market globally is \$21.4 trillion, about 30% of all managed assets.

Islamic finance, of which about three-quarters in banking assets, holds \$1.81 trillion. About one-quarter of Islamic banking assets is based in Malaysia alone, representing \$170 billion, which is larger than the entire responsible investment universe in Asia (of which 37%—about \$20 billion—are Islamic) by a factor of 3! With responsible investment assets in Asia representing just 0.2% of global responsible investment assets, and Islamic finance assets in Malaysia alone representing 1.9% of total

responsible finance assets (including Islamic banking assets), there is clearly room for cooperation towards a huge growth that is likely to accompany economic growth and financial market development in developing Asia.

To get an idea of the size of the asset growth we are talking about, consider if the total responsible finance assets of today were split according to the global population instead of its current developed market tilt. Of the \$23.1 trillion in responsible finance assets, a representative split based on the share of the global population would mean Asia's responsible finance assets would be \$12.7 trillion). If a more conservative split based on economic size (measured by GDP) were used, the share from Asia would still represent \$5.2 trillion in responsible finance assets, nearly 100 times the current responsible investment assets in Asia and more than 10 times the sum of current Islamic finance assets in Malaysia (the largest market) and responsible investment assets in Asia.

The prospects for responsible finance growth across Asia are tremendous and Malaysia's experience with both Islamic finance and more recent developments with its national pension fund integrating ESG and expanding to incorporate an Islamic investment option, the future for responsible finance in Asia is bright. To position this work among other contributions, we outline some properties of the above characteristics which have been approached differently by prior researchers.

5. Conclusion

The GCC and Malaysia are the leading Islamic finance markets in the world. The fast expanding bilateral ties between the two jurisdictions represent a promising opportunity for the global Islamic finance industry to gain traction. Increased cross-border activities, enhanced collaborations and fostering mutual linkages encourage the transfer of knowledge and innovation between the various Islamic finance jurisdictions. It is often regarded that Islamic financial hubs lack consolidation amongst them leading to differing legislations and rules when it comes to Islamic finance. However, differing views are no longer issues that will limit the process of financial integration between these two key Islamic finance markets.

In a brief, from the above quotations and discussions, it can be concluded that there are six GCC Islamic banks investment in Malaysia, these GCC Islamic banks in Malaysia are named Al Rajhi bank, Kuwait Finance house, Asian Finance bank, Alkhair International Islamic bank, Elaf bank and RUSD Investment bank are Islamic banks, one of them which is Elaf bank was acquired by another bank and lastly removed from the list of licensed banking institutions in Malaysia. Interestingly, Malaysia and the GCC countries remain the leaders in the Islamic finance industry. However, the existing literatures do not reveal much about the GCC Islamic banks existing in Malaysia.

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Appendix

Meaning of Shariah Concepts

The Concept of Shariah	Meaning
Wadiah Yad Dhamanah	savings with guarantee
Mudharabah	profit-sharing
Musyarakah	joint venture
Murabahah	cost plus
Bai'' Bithaman Ajil	deferred payment sale
Bai'' Dayn	debt trading
Ijarah Thumma al-Bai''	purchasing
Ijarah	leasing and subsequently purchasing
Qardhul Hassan	benevolent loan
Bai'' as-Salam	future delivery
Bai'' al-Istijrar	supply contract
Kafalah	guarantee
Rahnu	collateralized borrowing
Wakalah	nominating another person to act
Hiwalah	remittance
Sarf	foreign exchange
Ujr	fee
Hibah	gift

Source: Bank Negara Malaysia, web site (<http://www.bnm.gov.my> <last cited on April 20, 2007>)