



**UNIVERSITI PUTRA MALAYSIA**

**A CASE STUDY ON  
ISLAMIC BANK MALAYSIA BERHAD:  
IN SEARCH FOR BIGGER SHARE**

**CHE HASSAN PAHMI BIN HJ CHE MAMAT**

**GSM 1999 17**

**A CASE STUDY  
ON ISLAMIC BANK MALAYSIA BERHAD:  
IN SEARCH FOR BIGGER SHARE**

**CHE HASSAN PAHMI BIN HJ CHE MAMAT**

**MASTER OF BUSINESS ADMINISTRATION  
MALAYSIA GRADUATE SCHOOL OF MANAGEMENT  
UNIVERSITI PUTRA MALAYSIA  
1999**



**ISLAMIC BANK MALAYSIA BERHAD:  
IN SEARCH FOR BIGGER SHARE**

**BY**

**CHE HASSAN PAHMI BIN HJ CHE MAMAT**

**A CASE STUDY SUBMITTED IN PARTIAL FULFILMENT  
OF THE REQUIREMENTS FOR THE DEGREE OF  
MASTER OF BUSINESS ADMINISTRATION**

**MALAYSIAN GRADUATE SCHOOL OF MANAGEMENT  
UNIVERSITI PUTRA MALAYSIA**

**SEPTEMBER 1999**



**Dedication,**

**To my beloved wife Azizah bt Ibrahim and members of family , for their love, care, patient and encouragement. It is also to my colleagues at Islamic Development Department, Prime Minister's Department of Malaysia for the understanding and being supportive.**

## **ABSTRACT**

**Islamic Bank Malaysia Bhd is the only big player in Islamic Banking in Malaysia. It is the most awaited bank by Muslims of this country. It becomes the focus of the society pertaining to the effort of Muslims community to prove the viability of the Islamic finance system vis a vis conventional financial system. However after 14 years of its existence the bank has managed to capture only 1% of the market's share in the whole banking operation of the country.**

**The case study covers two aspects. Part I will be the write up and Part II will be the case analysis. The case write up covers salient features of the bank pertaining to the strategic approaches to increase the market share. It includes the products and services render by the bank, financial performance and the bank's operation. Part II, the case analysis discusses major issues concerning the case. Analysis is done base on the data in Part I by using technique in strategic planning such as SWOT analysis. The recommendations is made based on the outcome of the analysis using the said tool.**

## **TABLE OF CONTENTS**

	<b>Page</b>
Dedication	iii
Acknowledgement	iv
Abstract	v
Table of Contents	vi
 <b>PART I - THE CASE</b>	
1. Introduction	1
2. The Background of the Bank	3
3. Mission of the Bank	8
4. Management Information System	10
5. Shareholders	11
6. Services and Products	11
7. Deposits	12
8. Financing	13
9. Financial Performance	20
10. Asset of the Bank	22
11. Customers	23
12. Competitors	24
13. New Entrant	28
 <b>PART II - THE ANALYSIS OF THE CASE</b>	
Summary of the Case	29
Case Analysis	31
1. Major Issues	31



	<b>Page</b>
<b>2. Company Analysis</b>	<b>33</b>
<b>3. Methodology of Case Analysis</b>	<b>35</b>
<b>4. Case Analysis</b>	<b>36</b>
<b>5. SWOT Analysis</b>	<b>36</b>
<b>6. TOWS Matrix Analysis</b>	<b>38</b>
<b>7. SPACE Matrix</b>	<b>46</b>
<b>8. SPACE Analysis Result</b>	<b>47</b>
<b>9. Implementation</b>	<b>51</b>
<b>10. Conclusion</b>	<b>57</b>
<b>Appendix</b>	<b>58-92</b>
<b>Bibliography</b>	<b>93-97</b>



# **PART I - THE CASE**



## **ISLAMIC BANK MALAYSIA BERHAD: IN SEARCH FOR BIGGER SHARE**

### **1. Introduction**

1.1. It was as morning ritual for the private secretary to Dato' Ahmad Tajuddin, the Managing Director of the Islamic Bank Malaysia Berhad, to place the morning newspapers into in-tray for her boss. Dato Ahmad, usually skims through the paper at later time. But this morning, 1 June 1999, his eyes were focussing on a vernacular newspaper<sup>1</sup>, which entitled 'Islamic financial is the aim of Malaysian government'. "What a big opportunity for the Islamic Bank" He murmured to himself.

1.2. Upon further scrutiny of the news he came to know that the statement was made by Datuk Abdullah Ahmad Badawi, Deputy Prime Minister of Malaysia at an International Seminar on Retakaful, Islamic Banking and Financing for D-8

---

<sup>1</sup> Utusan Malaysia, 1 June 1999, page 2, Col. 1.



(Islamic Developing Countries) and members of Organisation Of Islamic Conference (OIC) held in Kuala Lumpur.

1.3. The Deputy Prime Minister statement is in line with the decision made by the Bank fifteenth annual general meeting held a week ago to increase the market share of the bank to 10% within 5 years. It seems, as the task is easy for the government rendered its support but the fact that the current bank market share is 1%. It seemed to be an uphill task for the managing director.

1.4. The current currency and stock market crisis, which hit Asia region, too had negative impact on the task to increase the bank market share according to the Managing Director. The crisis had interrupted Malaysia Gross domestic Product (GDP) growth of seven to eight percent for seven consecutive years<sup>2</sup>. However despite the currency turmoil the bank gross income increased by 28.97 percent from RM138.1 million in 1997 to RM178.1 million for financial year ended 30 June 1998.

---

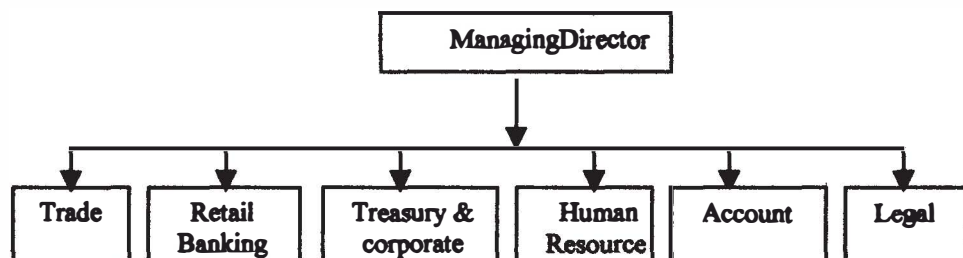
<sup>2</sup> BIMB HOLDING Berhad, Annual Report 1998, page 11.



## 2. The Background of the Bank.

2.1. According to En. Mustapha Hamat<sup>3</sup>, General Manager (Retail Banking) the bank has been incorporated on the 1<sup>st</sup> March 1983 as a limited company under the companies Act 1965. The bank takes the name of Bank Islam Malaysia Berhad with its registered office situated in Malaysia.

2.2. The Bank however started its operation on 1 July 1983. The initial management structure of the bank is shown in Figure 1 below. The Bank was headed by a former academician who possessed qualification in religion and modern economy.

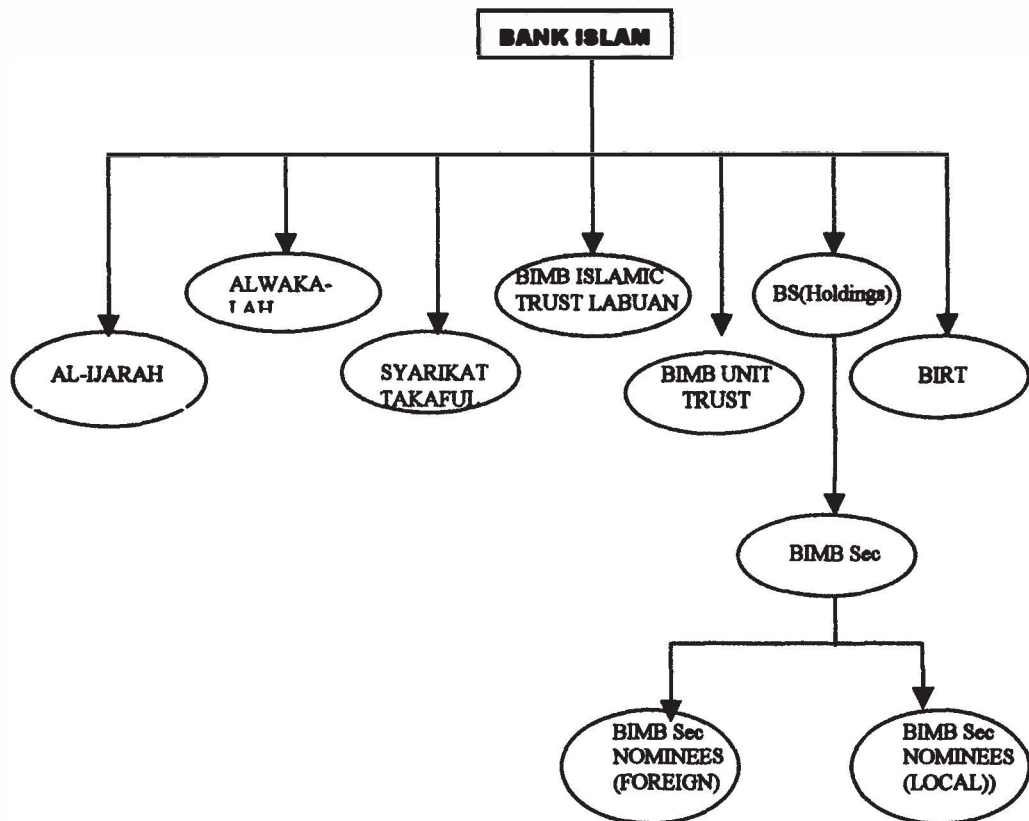


**Figure I -Organisation Chart**

---

<sup>3</sup> Interview was with En. Mustapha Hamat was held on 26 May 1999 at his office.

After its inception the bank had developed its operation not only in banking activities such as taking deposits but also in other activities relating to the insurance sector such as insurance. By then the Bank had developed various activities as shown in Figure 2.



**Figure 2-Corporate Structure (Before Re-Structuring)**

2.4. The incorporation of the bank was the culmination of relentless effort by Malaysian Islamic community to keep abreast with their counterpart in Middle East when there was a successful move to establish the Islamic bank in Jeddah in

1974 and the Islamic Bank of Dubai being the first Islamic commercial bank in 1975. It was also to prove that the economic system base on Islamic principle was very much relevant in the modern world. For Muslims on the street there is alternative for them to choose between conventional bank which they regard as 'haram'<sup>4</sup> to bank which was conduct its financial transaction according to Islamic laws. For the government it had proven that the government was receptive to the idea which against the notion that the government was not really keen to implement their own program that was 'the injection of Islamic values in administration'. For the bank itself, it had helped develop the Islamic banking and financial system into a modern, competitive and viable alternative to the more established conventional system.

- 2.5. The effort of Muslims of the country to establish Islamic Bank were culminated in the appointment by the Honourable Prime Minister of Malaysia a National Steering committee on Islamic Bank on 30<sup>th</sup> July 1980. The committee submitted its report on 5<sup>th</sup> July 1981, which was accepted by the

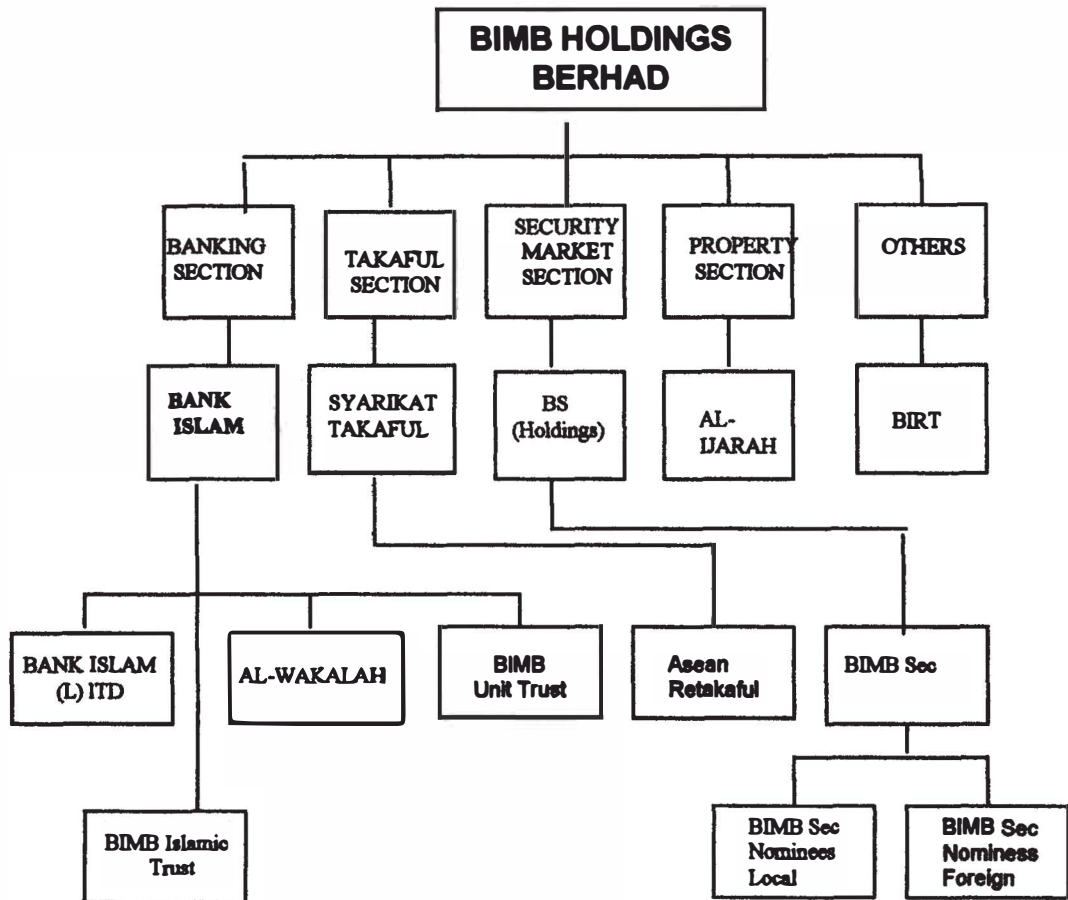
---

<sup>4</sup> Ziauddin Sardar, Meryll Wyn Davies, *Faces Of Islam*, p.56.



Government. Among the recommendation were as in **Appendix 1.**

2.6. Since its inception Islamic bank had grown up by leaps and bounds maturing into Islamic financial services supermarket of sorts, with interests in Islamic banking, takaful and stockbroking. "After 14 years of its existence, the bank had prepared itself to face the tougher challenges that lies ahead" stated the Chairman of the bank, Tan Sri Dato' Shamsuddin B. Abdul Kadir. In view of impending opening-up of global financial markets and mindful of its role to spearheaded the advancement of Islamic banking and finance into next millennium, the Bank undertook a restructuring exercise in the form of a Members' Scheme of Arrangement to rationalise its structure and operations. The restructuring exercise culminated with the creation of BIMB Holdings as ultimate holding company for the Bank Islam Group the restructuring illustrated in **Figure 3.**



**Figure 3 – Corporate Structure After Re-Structuring**

After restructuring BIMB Holdings Berhad activities can be divided into 5 sections. They were banking, Takaful (Islamic Insurance), property, securities sections and others. In term of financial performance of various section were shown in Table 1.

<b>Sections</b>	<b>Financial Performance 1998</b>
<b>Banking</b>	RM178.1 Million
<b>Takeful</b>	RM46 Million
<b>BIMB Securities</b>	( -RM9.2 ) Million
<b>Al-Ijarah (Property)</b>	RM2.1 Million
<b>BIMB Institute of Research and Training</b>	RM29,949

Adapted From Bank Annual Report 1998

**Table 1 – Financial Statement of the BIMB Portfolios.**

### **3. Mission of the Bank.**

3.1. According to En. Mustapha Hamat, general manager (retail banking) the mission of the bank were as follows;

- a) Alternative financial services.
- b) Short and long term viability.
- c) Sustaining growth.
- d) Leader in Islamic Banking.
- e) Provide high quality products.

While on the strategy of the bank, it can be divided into two categories. They were short and long term strategy.



### **3.2. Short Term Strategy**

- a) Improve the return to depositors.
- b) Financing emphasises on short term.
- c) Liquidating financing

### **3.3. Long Term Strategy.**

- a) Strengthen capital base.
- b) Upgrade Management of Information system (it cost 100 million with 200 staff).
- c) Develop competitive products.
- d) Educate the market.
- e) Build up customer base.
- f) Expand the operation. (In Sri Lanka, franchise Takaful in Arab Saudi).

**3.4. The bank incorporated under Islamic banking act 1983 that its brief description was as at Appendix 11. Beside that the bank also has its Religious Supervisory Council to supervise**

its operations in respect of their compliance with the rule of Shariah.

#### **4. Management Information System**

- 4.1. According to Chairman of the bank , the injection by the Bank Islam's Holding company, BIMB holding Berhad of sum RM500 million into its capital enables the bank to strengthen its position in the increasing competitive banking industry. In turn, this has paved the way for commencement of RM100 million management information system (MIS) upgrade programme in October 1997.**
  
- 4.2. This computer system upgraded exercise which will see the development of the region's first total Islamic-banking solution (TIBS) will be the bank platform to the launching an integral online banking service at all its branches by the fourth quarter of 1999.**
  
- 4.3. In near future, Bank Islam envisages the establishment of consumer banking units and investment banking unit, as well**

as the introduction of more outlets through the country, in line with its mission to develop Islamic banking in Malaysia.

## **5. Shareholders**

Although the call to establish Islamic bank in the country came from every quarters of Muslims but in term of implementation the government had adopted a rational approach. In the beginning the paid up capital of the bank were 80 million. The detail is shown on **Appendix 111**. After a few year in operation, the Bank's shares were listed on The Kuala Lumpur Stock Exchange Main Board. The paid up capital was RM133.403 million and the major shareholders were as at **Appendix 1V**.

## **6. Services and Products**

According to the chairman of the bank Bank Islam had introduced a comprehensive list of more than 40 diverse Islamic banking products and services, catering for the banking needs of Muslims in particular and the public at large. The array of products and services includes deposits, financing, trade financing and other services comparable to those of their conventional counterparts.

For deposit the bank accepts it under the concept of Al-Wadiah and in term of financing the bank offers financing under Al-Bai Bithaman Ajil and others. The products and services<sup>5</sup> in detail were in Appendix V.

## 7. Deposits

The deposits of the bank were experiencing rising trend since its inception. The deposits mainly under Al-Wadiah and Al-Murabahah concept. The detail figure of the deposits is illustrated in Figure 4.

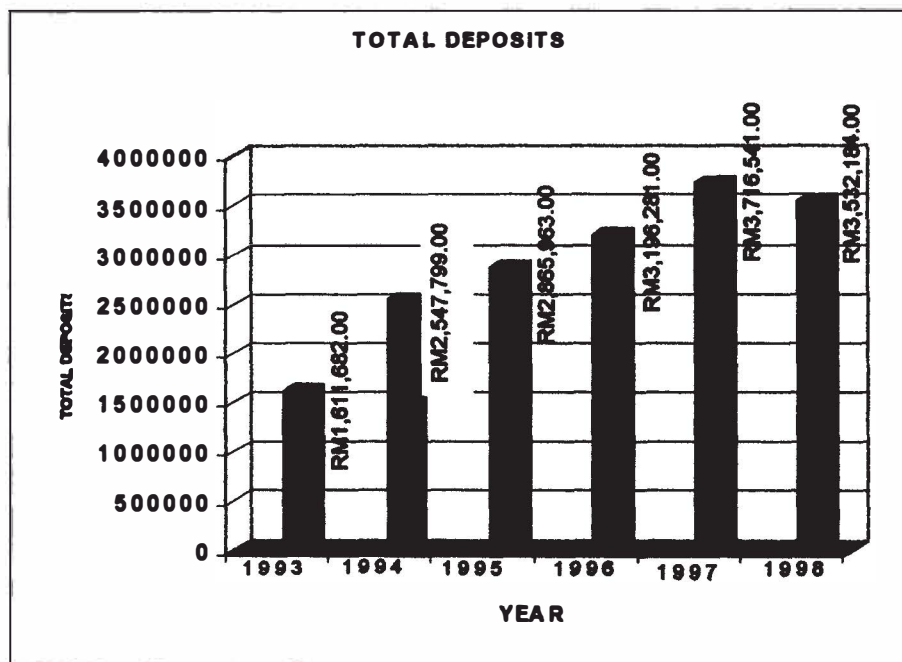


Figure 4 : Deposits From Customers

<sup>5</sup> Bank Islam Malaysia Berhad, Organisation And Operation, Kuala Lumpur, Malaysia, pp. 9-20.

According to Bank Negara Annual report , the deposits in Islamic Banking recorded a strong growth in 1998, particularly in the second half of the year. The increase was partly due to the migration of deposits from conventional banking to Islamic banking in view of better investment deposit rates. Investment deposits constituted the bulk of deposits (60.5%) which recorded a growth of 108.9% to RM9.9 billion.

## 8. Financing

8.1. In term of financing it also had shown rising trend. It clearly can be seen from 1993 onward. This is shown in Figure 5.

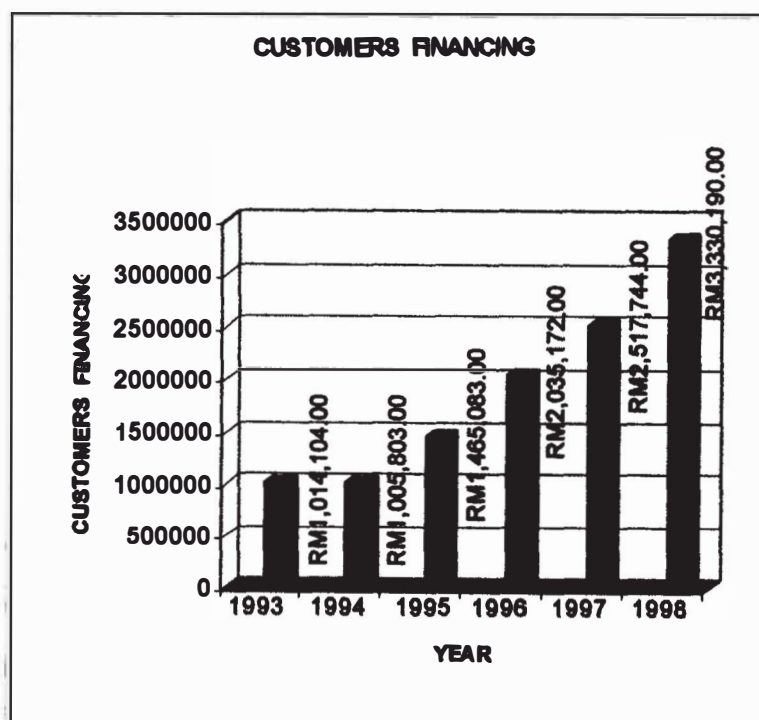


Figure 5- Customers Financing

**8.2. Bank Negara Annual Report 1998 stated that the expansion in total financing was small in 1998<sup>6</sup>, due to mainly to a decline of 1.4% (RM149 million) in the first half-year, which offset an increase of 3.2% (RM342 million) in the second half of the year. The exposure of Islamic banking to the broad property sector remained significant, at 41.7% of total financing. The high demand for broad property sector financing under Islamic banking was partly attributed to the fixed-rate nature of Islamic financing i.e. Bai' Bithaman Ajil.**

**8.3. During the period of rising interest rates in early 1998, borrowers took the opportunity to refine their loans under Bai' Bithaman Ajil to lock in their cost of financing. The most popular type of financing among the customers was Bai Bithaman Ajil, secondly Al-Murabahah. This is illustrated in Table 2.**

---

<sup>6</sup> **Bank Negara Malaysia Annual Report 1998, p 162.**



### FINANCING OF CUSTOMERS

GROUP	YEAR	
	1997	1998
AL-BAI BITHAMAN AJIL	RM 1,840,895.00	RM 2,320,577.00
AI-IJARAH	RM 132,708.00	RM 130,129.00
AL-MUSYARAKAH	RM 20,464.00	RM 12,980.00
AL-MUDHARABAH	RM 18,434.00	RM 18,468.00
AL-MURABAHAH	RM 483,823.00	RM 867,248.00
AL-QARDHUL HASSAN	RM 24,574.00	RM 90,323.00
STAFF FINACING	RM 45,174.00	RM 52,926.00
LESS PROVISION FOR BAD DEBT AND DUBTFUL FINANCING	RM 2,566,072.00	RM 3,492,651.00
	RM (50,397.00)	RM (162,461.00)
	RM 2,515,657.00	RM 3,330,190.00

**Table 2 - Financing of customers**

- 8.4. According to En. Khairuddin B Arshad, Officer in Bank Control section of Bank Negara 60% of the financing was taken by non-Muslims. The purpose of financing was varied and they were illustrated in Table 3.

**BREAKDOWN OF GROSS FINANCING OF CUSTOMERS  
BY THEIR ECONOMIC PURPOSES**

GROUP	YEAR	
	1997(000)	1998(000)
Agriculture, mining and quarrying	RM 156,697.00	RM 154,544.00
Manufacturing	RM 535,648.00	RM 474,545.00
Real estate and construction	RM 473,630.00	RM 486,170.00
Housing	RM 537,519.00	RM 1,143,085.00
General commers	RM 146,925.00	RM 334,124.00
Finance, insurance and business services	RM 41,662.00	RM 34,524.00
Consumption credit	RM 118,339.00	RM 129,293.00
Others	RM 555,652.00	RM 736,366.00
<b>TOTAL</b>	<b>RM 2,566,072.00</b>	<b>RM 3,492,651.00</b>

**Table 3 - Financing of Customers  
by Their Economic Purposes.**

8.5. During the currency and stock turmoil in Asia, Malaysian banks were also not spared. A lot of bank had non-performing loans or according to Bank Islam Malaysia 'doubtful loan'. According to Bank Negara report 1998, the most vulnerable loans were in Mining, real estate and consumer durable sectors. For the detail it is illustrated in **Table 4.**