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A Comparative Study of Islamic Banking Practices*

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ABSTRACT. This paper examines the practices of Islamic banks from eleven Muslim countries. The selected areas include the usage of Sharia principles and the uses and sources of funds. Disparity exists especially in areas such as number of Sharia principles employed and its usage in banking activities. There are also differences in the sources and uses of funds among the sample banks. In the case of the sources of funds, the differences are due to the types of accounts available and Sharia principles adopted by banks in delivering those services. For the usage of funds, all banks tend to concentrate in mark-up financing activities. Variations also appear in the area of sectoral financing. These differences are largely influenced by the economic development of the country in which the Islamic bank operates.

1. Introduction

While Islamic banking may not be a totally new concept, the widespread expansion of this form of banking is certainly a fairly recent phenomena. There are more than 150 Islamic banking institutions and these institutions not only operate in Muslim countries, but have also gained footing in non-Muslim countries. In 1993, it was estimated that, on a global scale, total assets of this banking system were about US$ 60 billion and would probably reach US$ 100 billion at the end of this millennium. The term "Islamic banking" refers to a conduct of banking operation in consonance with Islamic teachings. The main principle of Islamic banking comprises prohibition of interest in all forms of transactions, business undertakings and trade activities.

Since Islamic banks are founded on the same Islamic business principles and are governed by the same law *i.e.* Sharia laws, there should be no differences in terms of operations and practices amongst them. In reality however, many differences in practices do occur among the Islamic banks in various Muslim countries.

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The objective of this paper is to survey the operational aspects and practices of selected Islamic banks in various Muslim countries. This survey covers the services and products available to customers, the usage of Sharia principles in their operations and sources and uses of their funds. The Islamic banks included in this study are from eleven Muslim countries: Bahrain, Bangladesh, Iran, Jordan, Kuwait, Malaysia, Pakistan, Sudan, Tunisia, Turkey, and United Arab Emirates. The banks covered in this survey, the year in consideration and the abbreviations used for the banks are all presented in Appendix I.

2. The Usage of Sharia Principles

A list of *Sharia* principles adopted by various Islamic banks in selected countries is shown in Table l (further details on these principles are available elsewhere, *e.g* Haron 1995). Among the salient features in the application of *Sharia* principles by Islamic banks, a few aspects worth noting are:

i) The use of terminology,
ii) Category of principles,
iii) Number of principles,
iv) Country-specific principles.

i. The Use of Terminology

BIMB of Malaysia is the only bank where Arabic words are used in describing all the Sharia principles governing its operations. Islamic banks in other countries, however, retain Arabic words for certain principles only, using vernacular words for others. Some of the Arabic words which are commonly used by almost all Islamic banks are the principles of *mudaraba*, *musharaka*, *murabaha*, *ijara* and *qard hassan*. The slight differences in spelling are due to the pronunciation of words in various countries.

The principle of *bai-mua'zzal* or cost plus sales under deferred payment which is used by IBBL only is similar to the principle of *bai bithaman ajil* of BIMB and the principle of instalment sales which is used by Islamic banks in Iran. Although this principle is not practiced by other Islamic banks, these banks still offer deferred payment facility to their customers. This facility is nevertheless incorporated within the principle of *murabaha*. In Pakistan, the principles of mark-up and buy-back arrangement(1) also operate in line with the principle of *murabaha*.

The principle of *bai salam* of IBBL of Bangladesh is a principle in which the bank will make an advance purchase and the customer will deliver the goods at a later date. This principle is similar to the principle of forward delivery transaction which is used by Islamic banks in Iran. The principle of *bai al-dayn* used at BIMB of Malaysia is for the transactions involving sale and purchase of trade documents such as bill of exchange and bankers' acceptance(2). This principle is similar to the principle of debt purchasing of Iran.

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(1) The buy back arrangement is disapproved by some Sharia scholars.
(2) The transactions mentioned in this sentence are generally disapproved by some *Sharia* scholars. They are being used in certain countries under local mandate. Their mention in this survey should not be construed as a measure of acceptance.

ii. Category of Principles

Not all banks have listed all categories of *Sharia* principles which govern their banking operations. The *Sharia* principles adopted by Islamic banks can be divided into four categories, namely, (i) profit and loss sharing, (ii) fees based, (iii) free services, and (iv) ancillary principles.

Except for IBBL of Bangladesh, JIB of Jordan , BIMB of Malaysia, and FF1 of Turkey which have adopted principles in all four categories, the Islamic banks in other countries only employ three of the above mentioned four principles. Although these banks do not mention other principles such as *wadiah* (trust) and *rahn* (mortgage), in practice they are involved in the activities which fall within the ambit of wadiah and rahn. For example, IBB of Bahrain, BMI of Iran, KFH of Kuwait, MCB of Pakistan, FIBS of Sudan, BEST of Tunisia, and DIB of the United Arab Emirates provide finance based on collateral. Similarly current account facilities at MCB of Pakistan, and KFH of Kuwait are based on *wadiah*.

iii. Number of Principles

Within the four categories of principles there can be as many as 14 different principles employed by Islamic banks in their operations. Both IBB of Bahrain and DIB of the United Arab Emirates have the least number of principles *i.e.* five. The State Bank of Pakistan which is the central bank of Pakistan, has provided twelve methods or principles to be used by all banks in Pakistan. Also in Iran, the Law for Usury-Free Banking 1983 has listed twelve principles.

Within the category of profit-loss sharing, except for Iran and Pakistan which have more than two principles, and IBB of Bahrain has one principle *i.e. musharaka*, other Islamic banks are having two principles *i.e. musharaka* and *mudaraba*. Although it seems that Iran and Pakistan have more principles within the profit and loss category, these additional principles actually operate along the lines of both *musharaka* and *mudaraba*.

In the category of fees based, DIB of the United Arab Emirates has two principles followed by JIB of Jordan, with three principles. Malaysia which has only one Islamic bank *i.e.* BIMB, has the highest number of principles *i.e.* nine, followed by Islamic banks in Pakistan which have seven principles. Principles in this category are used universally by all Islamic banks irrespective of countries. Principles within this category are further divided into three categories, namely, (i) fees based on mark-up, (ii) fees based on commission, and (iii) fees based on services. Products or services whose charges are based on mark-up are usually governed by the principle of *murabaha*, *ijara*, *ijara wa-iktina* (or *istisna* for Kuwait and *taajir* for Tunisia), hire-purchase, and *bai mua'zzal*. The marked-up amounts are based on the nature of the transactions and the length of the credit given to the customer. Commission is usually received by the Islamic banks for the transaction based on the volume or the amount. However, service charges are imposed on customers upon utilisation of bank services and the rate is fixed in line with the nature of services.

Within the free services category, all banks have adopted a single principle called *qard hassan.* Four banks (IBBL, JIB, BIMB, and FF1) have listed additional principles which fall within the ancillary principles category.

iv. Country-specific Principles

Beside common principles, some countries have listed specific Sharia principles to be used by their Islamic banks. Although these principles are available at a particular country, this does not necessarily mean that other countries are not familiar or do not use those principles. In some cases, specific principle of a particular country is considered within the ambit of one of the common principles adopted by other countries.

In the case of Iran, for example, they have five additional principles in the profit-loss category, namely, civil partnership, legal partnership, direct investment, *mozaarah* and *mosaqat*. While civil partnership, legal partnership and direct investment are dealing with the legal aspects of the formation of new ventures, both *mozaarah* and *mosaqat* are methods in agricultural financing. Similarly with Pakistan which has additional principles such as equity participation, participation terms certificate, *modaraba* certificate and rent sharing. All these principles, however, can be clustered together within the principles of *mudaraba* and *musharaka.*

Although Pakistani banks and BIMB seem to have many Sharia principles for their fixed charges category, these principle can be grouped together within the principles of service charges. In Pakistan for example, development charges and service charges are terms used in imposing charges on customers. Similarly in Malaysia, the principles of *al-wakalah, al-kafalah, al-hawalah,* and *al-ujr* are terms used by BIMB to represent the nature of services rendered to customers and how charges will be imposed on customers for using these services. Iran also has an additional principle within this category called '*joalah'.* This concept refers to the undertaking of one party *ja'el* or employer (either bank or customer) to pay a specified amount of money or wage to another party in return for rendering a specified service in accordance with the terms of the contract. This principle, therefore, is similar to the principles of commission and service charges of other countries. [See Table 1 at the end]

3. Services Available

The central objective of Islamic banks is to provide banking facilities and services in accordance with Islamic principles, rules and practices. This means Islamic banks provide saving facilities to depositors and extend loans to deficit units. Normal deposit facilities such as savings account, current (checking) accounts, fixed or investment deposits are available to customers. Islamic banks are also involved in facilitating international trade for their customers. Services such as letters of credit, bills for collection, letters of guarantee, buying and selling of foreign currencies, and remittance services are also available at Islamic banks.

Advisory services are provided at Islamic banks in many countries. These services include project planning, property management, preparation of feasibility studies, project evaluation, trustee services and training and education in Islamic finance and economics. Unlike conventional banks some Islamic banks are also actively involved in social activities. The services that are considered as social service include benevolent loans, collection and distribution of *zakat* funds, donation and activities that will enhance Islamic values and ways of life.

3.1 Deposit Facilities

The deposit facilities available at selected Islamic banks are listed in Table 2. Some of the similarities and differences in terms of deposit facilities are highlighted below:

1. Except for FF1 of Turkey which offers only two types of deposit facilities *i.e.* special current accounts and PLS "*modaraba*" accounts, Islamic banks in other countries provide three types of deposits facilities to their customers *i.e.* current accounts, savings accounts and investment account facilities.

2. The three types of deposit facilities available at Islamic banks *i.e.* current accounts, savings accounts and investment accounts can fall within various grouping of Islamic principles such as profit and loss sharing, free services and ancillary principles. The most common principles used by the Islamic banks are *mudaraba* from the category of profit and loss sharing, *qard hassan* from the category of free services, and *wadiah* from the category of ancillary principles.

3. There are however some differences in the treatment of savings accounts facility among these banks. Islamic banks in Iran, BIMB of Malaysia, El Gharb of Sudan, and DIB of United Arab Emirates for example, regard savings accounts as a facility by itself. IBB of Bahrain, IBBL of Bangladesh, JIB of Jordan, KFH of Kuwait, and BEST of Tunisia consider savings accounts as one of the facilities within the category of investment accounts.

4. Investment accounts facilities have been divided into three categories, namely, (i) deposits based on time *e.g* for three months, six months, nine months, etc., (ii) deposits based on notice *i.e.* notice must be given by customers prior to any withdrawal, and (iii) deposits for specified projects or purposes. Investment accounts facilities based on time are available at all Islamic banks in all countries. Investment deposit facilities based on notice, however, are only available at IBBL of Bangladesh, and JIB of Jordan. Customers of IBBL must give seven days notice prior to any withdrawal and ninety days notice at JIB. Specific investment facility is available in most countries except Iran, Kuwait, Pakistan and Turkey. In Tunisia, the investment account is divided into two categories, namely, (i) participating deposit account, and (ii) committed participating deposit. Participating deposit account comprises of *tawfir* or savings account and time deposit. The operations of these two accounts are similar to the savings and ordinary investment accounts of

other Islamic banks. In the case of committed participating deposit, its operations are similar to special or specific investment accounts facility of other banks.

5. There is no standardised Sharia principle used by all Islamic banks in delivering deposit facilities. In the case of current accounts for example, Iran and Kuwait use the principle of *qard hassan* whereas other countries such as Bangladesh, Jordan, Bahrain and Turkey use the principle of *wadiah*. For savings accounts, Iran uses the principle of *qard hassan* whereas in Kuwait, both the principles of *qard hassan* and *mudaraba* are applicable for these accounts. The principle of *qard hassan* is applied for the uninvested portion of funds in the savings accounts and the principle of *mudaraba* is for the invested portion. In Malaysia, savings accounts are governed by the principle of *al-wadiah yad dhamanah* or guaranteed custody. Islamic banks in some Muslim countries (Bangladesh, Jordan, Kuwait, Pakistan and United Arab Emirates) use the principle of *mudaraba* for their savings accounts facility. As for the investment accounts facilities, the principle of *mudaraba* is the only principle used by the Islamic banks in all countries.

6. In practice, Islamic banks provide guarantee to return the full amount of deposits placed by customers in accounts even though the facilities operate on *qard hassan* or *wadiah*. But no guarantee is given for deposits which operate under the principle of *mudaraba*. Both Malaysia and Iran provide some kind of returns to their savings accounts customers. These rewards however are solely based on the discretion of the banks and the customers will have no prior knowledge of the reward. Non-fixed prizes of bonuses in cash or in kind, such as air tickets to holy shrines, carpets, gold coin or even cars, an exemption or reduction from payment of commission for banking services; and priority in the use of banking facilities are some of the examples of rewards given by the Islamic banks in Iran (Aryan, 1990). In Malaysia, the reward for savings accounts holder is usually in the form of rates of profit announced by the bank on a monthly basis(3).

In most cases, the operational aspects and practices of these deposit facilities are similar to practices of conventional bank deposit facilities. These similarities include the procedures and requirements such as minimum deposits required for opening the account, identification, stop payment of cheques, closing accounts, management of unclaimed monies, etc. [See Table 2 at the end]

3.2 Financing Facilities

Like conventional banks, Islamic banks are also actively involved in financing the needs of their customers. This means providing short, medium- and long-term funding facilities. Since the Islamic banks are prohibited from making loans with interest to their customers, all financing operations are either based on profit-loss sharing or based on fixed charges. The principles of *mudaraba* and *musharaka* based on profit-loss sharing concepts are widely used by all Islamic banks in financing working capital

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(3) The practices noted in this and the previous sentence are specific to the countries mentioned. They lack general approval.

loans. Principles such as *murabaha* and *bai-mua'zzal* tend to be used by banks to finance the purchase of fixed assets by customers. Principles of *murabaha* and *bai mua'zzal* are also commonly used by Islamic banks for customers who want to purchase raw materials and merchandises. For buying machinery and heavy equipment, the principles of *ijara* and *ijara wa-iktina* are employed.

The financing activities of Islamic banks based on the principles of *Sharia* are shown in Table 3. Data for BMI of Iran, KFH of Kuwait, MCB of Pakistan, and El Gharb of Sudan are not available. Some of the general observations from the Table 3 are:

1. The five modes of financing which are commonly used by Islamic banks world-wide are *musharaka, mudaraba, murabaha, ijara* and *qard hassan*. However, IBB of Bahrain uses only three modes of financing *i.e. musharaka, murabaha*, and *qard hassan*. Similarly, DIB of United Arab Emirates also uses three modes *i.e. musharaka, mudaraba* and *murabaha*.

2. Although the principles of *musharaka* and *mudaraba* are recommended by Islamic scholars, no Islamic bank surveyed in this study is channelling more than ten per cent of the total financing portfolio along these modes of financing. Similarly with the principle of *qard hassan*. Except for IBBL of Bangladesh where the percentage of funds used for this mode of financing is four per cent, the percentage for other banks is less than one per cent.

3. There are some variations among Islamic banks in the use of *qard hassan* loan. The Jordan Islamic Bank Law allows the JIB to give *qard hassan* loans for productive purposes in various fields to enable the beneficiaries to start independent lives or to raise their incomes and standard of living. In case of IBB, the *qard hassan* loan is used as assistance for persons to get married, for house repairs, medical treatments and for education. At the DIB, this loan is extended for productive purposes and available to shareholders or depositors. The amount, however, is relatively small and on a short term basis. In Malaysia, the *qard hassan* loan is extended by BIMB through other social organisations such as Amanah Ikhtiar Malaysia or AIM (AIM is a social organisation established by the Foundation of Islamic Economics of Malaysia with the objective of increasing the income of poor Muslims).

4. The principle of *murabaha* is the most widely used principle among Islamic banks. IBB of Bahrain for example, channelled 96% of its financing activities in form of *murabaha*. Other banks with high percentages of *murabaha* are 85% for DIB of United Arab Emirates, 61% for FF1 of Turkey, and 51% for IBBL of Bangladesh. However, the percentage of *murabaha* for BIMB of Malaysia was less than 20%.

5. BIMB of Malaysia has the highest percentage of *bai bithaman ajil* principle of financing *i.e.* 68% of the total financing. Although there is no *bai bithaman ajil* principle for banks such as IBB of Bahrain, JIB of Jordan, FF1 of Turkey, and DIB

of United Arab Emirates, these banks incorporate deferred payment facility within the principle of *murabaha*.

6. JIB of Jordan and FF1 of Turkey have a high percentage of financing in the category of ‘others’ *i.e.* 42% for JIB and 21% for FF1. While no explanation is given by the JIB, the ‘others’ category for FF1 comprises of short term investments abroad and advances made to vendors. [See Table 3 at the end]

Islamic banks tend to finance all sectors within the economy. The funds however are not equally distributed among these sectors. The sectoral breakdown of loans is shown in Table 4. Since there is no standardisation among Islamic banks in classifying the distribution of financing, it creates difficulties for comparative analysis. However, some of the general conclusions drawn from the data are as follows:

1. Sectoral financing of Islamic banks varies and is in line with the economic environment of the respective countries. BMI of Iran, IBBL of Bangladesh and FIBB of Bahrain concentrate on commercial and manufacturing sectors, whereas BIMB of Malaysia and JIB of Jordan tend to concentrate on the miscellaneous sector (*e.g* housing, real estate, manufacturing and services). There is no sectoral concentration for FF1 of Turkey.

2. At the end of 1992, the percentage of loans for commercial and manufacturing sectors extended by FIBB of Bahrain and BMI of Iran was 64% and 61% respectively. The percentage for these sectors is very much higher for IBBL of Bangladesh. As at the end of 1993, 93% of the total loans was for these sectors. As for BIMB of Malaysia, the percentage was 30% for the year 1994. It was 37% for JIB of Jordan for the said sector.

3. BIMB of Malaysia and JIB of Jordan have provided the highest percentage of loan to the miscellaneous sector *i.e.* 45% for BIMB and 50% for JIB. The miscellaneous sector of BIMB comprises mainly of housing loans given to the individual customers (as at 1994, the percentage of housing loan against the total loans was 22%). The miscellaneous financing of JIB as explained in their 1993 annual report comprises loans to fulfil the basic needs of citizens and includes loan for building materials, vehicles, furnitures and craftsmen requirements.

4. Faysal Islamic Bank of Bahrain is the only bank involved in financing other banks and financial institutions. At the end of 1993, the fund allocated for this sector was 17% of the total.

5. Except for FF1 of Turkey which is heavily involved in financing the agricultural sector, other Islamic banks are not really involved in this sector. At the end of 1993, 21 % of total loans of FF1 went to this sector. IBBL of Bangladesh, BIMB of Malaysia and JIB of Jordan had allocated only 1%, 4% and 1% respectively, for this sector. At the end of 1992, the percentage of total loans to this sector was 7% for BMI of Iran.

3.3 Other Facilities

Other facilities available at Islamic banks comprise letters of credit, letters of guarantee, collection of bills, sale and purchase of foreign currencies, and remittance services. In most cases, facilities such as letters of guarantee, sale and purchase of foreign currencies and remittance services are provided to customers on a commission and service fee basis. There are however slight variations in principle adopted by Islamic banks for letters of credit facilities. JIB of Jordan, FF1 of Turkey, DIB of United Arab Emirates, FIBB of Bahrain and Islamic banks in Pakistan use *wakalah* and *murabaha* principles in providing this facility. In the case of *wakalah*, the customer must pay in advance the full value prior to the issuance of the letter of credit (*i.e.* fully-covered L/C). The bank will receive commission or service fees on the service rendered to the customer. Under the principle of *murabaha*, the bank would import or purchase goods and resell to customers on a marked-up price agreeable to both parties. The title to the goods will be transferred to customers on the arrival of the import documents. If the customer does not have deferred payment facility, he or she must settle in full to the bank the resale price and other charges prior to receiving the import documents. [See Table 4 at the end]

At BIMB of Malaysia, the principle of *musharaka* is used in addition to *wakalah* and *murabaha*. In this case, the Bank requires the customer to deposit a certain percentage of money (based on agreement made with the Bank) prior to the importation of goods. The Bank will then issue a L/C and make payment using both customer’s and it’s own funds. The customer is responsible to sell the goods and return to the Bank the Bank's funds plus the Bank’s share of profit. IBBL of Bangladesh uses a similar approach as practiced by BIMB of Malaysia for the letter of credit facility.

The involvement of Islamic banks in providing these facilities is shown in Table 5. Some of the salient features of Islamic banks in offering these facilities are:

1. The types of additional facilities provided by Islamic banks vary from one bank to another. While letters of credit and letters of guarantee are available at all banks, facilities such as foreign exchange, bills for collection are available only in selected banks such as BMI of Iran, BIMB of Malaysia, MCB of Pakistan, IBBL of Bangladesh and KFH of Kuwait. JIB of Jordan, IBB of Bahrain, FF1 of Turkey and DIB of United Arab Emirates do not provide foreign exchange contracts and bills for collection services. In the case of El Gharb of Sudan, they do provide bill for collection facilities but not foreign exchange services.

2. The degree of involvement in offering additional facilities also varies from one bank to another. FF1 of Turkey for example, has total contingent liabilities almost equivalent to total assets. Similarly the El Gharb of Sudan, has total exposure in contingent liabilities of 89% of total assets. In contrast to FF1 and El Gharb, IBB of Bahrain has the lowest exposure in terms of contingent liabilities. At the end of 1994, total contingent liabilities was only 3% of total assets. BEST of Tunisia is another bank which has a lower exposure in contingent liabilities *i.e.* 5% of total

assets. While the percentage for BIMB of Malaysia, MCB of Pakistan and IBBL of Bangladesh was between 35% to 45%, the proportion for BMI of Iran, KFH of Kuwait, JIB of Jordan and DIB of United Arab Emirates was below 15% of total assets.

3. There are also some differences in terms of emphasis of facilities extended by Islamic banks to their customers. BMI of Iran, MCB of Pakistan, IBBL of Bangladesh and JIB of Jordan seem to concentrate on letters of credit facilities, whereas BIMB of Malaysia, KFH of Kuwait and DIB of United Arab Emirates tend to concentrate on providing letters of guarantee. [See Table 5 at the end]

4. Sources and Uses of Funds

Basically there are three main sources of funds for Islamic banks, namely: (i) deposits from customers, (ii) other liabilities (*e.g* profit payable to depositors, notes payable and 'other' payables), and (iii) shareholders funds. The breakdown of sources of funds for selected Islamic banks at the end of the reported period is shown in Table 6.

IBB of Bahrain, BMI of Iran, BIMB of Malaysia, MCB of Pakistan, and FF1 of Turkey are those banks for which the funds deposited by customers constitute about 90% of the total liabilities. The percentage figure for other Islamic banks were within the range of about 60% to 85% of total liabilities. El Gharb of Sudan has the lowest percentage figure *i.e.* 59% of the total assets.

With regards to the shareholders funds, except for BEST of Tunisia with 17% of total liabilities no other bank has shareholders funds in excess of 7% of total liabilities. Shareholders funds comprise paid-up capital, various reserves and retained earnings. Majority of the banks have shareholders funds between 5% to 7% of the total equities and BMI of Iran has the lowest figure *i.e.* less than one per cent of total equities.

Among the Islamic banks which have relatively higher proportion of 'other' liabilities are El Gharb of Sudan (34%), IBBL of Bangladesh (13%), JIB of Jordan (12%), and DIB of United Arab Emirates (12%). While a bulk of other liabilities for IBBL and DIB is represented by the 'unearned revenue' which is derived from *murabaha* and *musharaka* contracts, whereas for JIB, the main item is 'unpaid profit for deposits' to the depositors. In the case of El Gharb of Sudan, 'other' liabilities category comprises 'investment deposit share', 'provision for income tax', 'accruals', 'creditors' and 'other credit balances'.

Although deposits from customers is the major sources of funds for Islamic banks, the contribution of each deposit facility varies from one bank to another. The composition of deposits facilities available at Islamic banks is also shown in Table 6. Some of the salient features relating to the composition of deposits facilities among these Islamic banks are given below:

1. Accounts which operate on *mudaraba* principle are the most well received deposits facilities among the Islamic banks' customers. In the case of IBB of Bahrain for example, at the end of 1994, the total funds provided by these facilities was 90% of the total deposits. Turkey had a similar percentage as of IBB of Bahrain. El Gharb of Sudan had the lowest percentage for this kind of account, that is 10% of the total deposits.

2. Savings accounts facilities operating on a *mudaraba* principle are more attractive to the depositors as compared to investment account facility. The percentage of savings accounts is always bigger than the percentage of investment accounts. At MCB of Pakistan, for example, the percentage for savings accounts was 45% and 24% for investment accounts, for IBBL Bangladesh, it was 45% against 36%, 58% and 26% for KFH of Kuwait, and 57% and 34% for IBB of Bahrain. JIB of Jordan is the only bank which differs from this trend as the percentage of savings accounts was 8% and 71% was investment accounts. These percentages are based on total deposits.

3. The percentage of savings accounts (relative to total deposits) operating on principles other than *mudaraba* is smaller, not only than the percentage of current accounts, but also compared to savings accounts which operate on *mudaraba*. For example, the percentage of savings accounts of BIMB is 15% and 17% for current accounts. BMI of Iran has the smallest percentage of savings accounts *i.e.* 5% of the total deposits.

4. Current accounts are also major providers of funds to the Islamic banks especially for Islamic banks in Sudan. At the El Gharb of Sudan for example, as at the end of 1993 the current accounts constituted 57% of total deposits. BMI of Iran also has a high percentage of current account as compared to other deposit facilities *i.e.* 34%. For other banks, about 20% of the deposits is placed in the current accounts. The banks of which funds deposited in current accounts is 10% or less of total deposits are FF1 of Turkey and BIB of Bahrain.

5. Both current and investment accounts facilities using foreign currencies have received a tremendous response from customers in Turkey. At the end of 1993, these accounts constituted 85% of the total deposits placed by FF1 customers. Other banks do not indicate the proportion of foreign currency accounts in their annual reports.

6. BIMB of Malaysia is the only bank where the figure for `other deposits' facility was higher than current accounts, and savings accounts figures. The depositors who deposited their money into this facility are mainly government or government agencies. Usually the terms for this deposit are subjected to the outcome of negotiations between the bank and the depositor. In the case of El Gharb of Sudan, the figure for `other deposits' was higher than savings and investment accounts figures. In Sudan however, the bulk of this deposit is mainly from marginal deposits required by the Bank prior to the issuance of letters of credit. [See Table 6 at the end]

How Islamic banks use their funds is represented by the types of assets held, as disclosed in the balance sheet. As presented in Table 7, these assets basically belong to five main categories, namely, (i) cash, (ii) financing, (iii) investment, (iv) others, and (v) fixed assets. Cash includes cash in hand, balance with the central bank or reserves, and balance with other financial institutions. Financing comprises all loans extended under the principles of *mudaraba, musharaka, murabaha, bai mua'zzal, ijara* and *qard hassan*. Investment not only consists of investments in government securities, treasury bills and other Islamic securities (*e.g* Islamic bonds and Islamic bankers acceptance) but also includes investments in subsidiaries and associate companies. Fixed assets include all land and buildings, motor-vehicles, and furniture and fixtures. Assets such as prepayments, receivables, stationaries, stock of commodities, and intangible assets which belong to the bank and can not be classified into any of the four categories mentioned above are classified as "other" assets. Some of the prominent features in terms of uses of funds among the Islamic banks in the selected countries are as follows:

1. There is no standard approach to the use of funds among Islamic banks. As shown in Table 7, the variations are reflected not only by the differences in terms of preferences, but also in the percentage of funds allocated for various categories of assets. Except for BIMB of Malaysia, KFH of Kuwait and El Ghrab of Sudan which give priority to investments, Islamic banks in other countries concentrate on financing activities. For IBBL of Bangladesh and FF1 of Turkey, investment activities are less important and ranked fifth and fourth respectively, out of the five categories mentioned above. Cash is ranked second by six banks *i.e.* BMI of Iran, IBBL of Bangladesh, JIB of Jordan, BEST of Tunisia, FF1 of Turkey and DIB of United Arab Emirates. The banks which rank cash as third after financing and investment are IBB, MCB, KFH, BIMB and El Gharb of Sudan. Except for IBB of Bahrain which ranks other assets similar to investment *i.e.* second position, most of the banks rank investment or other assets at the fourth position and fixed assets are placed last among the categories of assets by majority of banks.

2. Amongst the Islamic banks which give top priority to financing activities, FF1 of Turkey and IBB of Bahrain emerged as the top banks with approximately 84% of the total assets being allocated to these activities. For BIMB and KFH where financing is ranked second, the percentage was 33% and 40% of total assets respectively.

3. In addition to BIMB and KFH, MCB of Pakistan also participated heavily in investment activities. The percentage of investment activities relative to total assets was 53% for BIMB, 47% for KFH and 39% for MCB. The higher percentage in investment activities for Kuwait, Malaysia and Pakistan is due to the fact that the governments of those countries issue securities based on Islamic principles, thus creating an investment avenue for the Islamic banks. This kind of opportunity is not available in other countries. In Sudan, however, the investment made by Islamic banks is not so much in securities but mainly in foreign currencies.

4. Islamic banks in countries where the investment avenue is limited usually keep more funds in cash. Banks such as BIMB, KFH and MCB maintain their cash position at about 11% or 12% of the total assets. JIB has the highest cash percentage *i.e.* 34% followed by IBBL of Bangladesh with 33%. The lowest cash holding *i.e.* at 4% of total assets was held by IBB of Bahrain. [See Table 7 at the end]

5. Concluding Remarks

In line with its objective to survey the practices of Islamic banks in selected countries, this study found some noteworthy observations. In terms of the number of *Sharia* principles, while Islamic banks in many countries (especially Middle Eastern countries) operate with a minimum number of principles, many additional principles have been introduced in countries such as Malaysia, Bangladesh, Pakistan and Iran. In the case of Malaysia for example, there are fourteen *Sharia* principles and all these principles bear Arabic names. This disparity could raise many hypotethical questions to both Muslims and non-Muslims. To Muslims, they may have reservation that some of these principles are a mere legal stratagem (*heela*) to circumvent *Sharia* rules in offering banking facilities similar to the facilities of conventional banks. Non-Muslims might view this as a disparity within the Islamic financial system. A similar situation is found in the types of deposit facilities available at Islamic banks. The findings of this study confirmed that all Islamic banks prefer to use marked-up facilities rather than profit-loss sharing. Although these principles are condoned by *Sharia* but as recommended by scholars, its should be used only after profit- loss sharing principles are found unsuitable (Mirakhor, 1987). While Islamic banking has grown phenomenally by any standard of measure, this has only occurred on an intra-country basis. For international expansion to become a reality greater standardisation will be a prerequisite. This paper which has highlighted the existing disparity can be taken as a first step in the process of rectifying the variations.

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Appendix 1

List of Participating Banks

	Country		Bank	Year of Data
1.	Bahrain	:	Islamic Bank of Bahrain (IBB)	1993
2.	Bangladesh	:	Islami Bank of Bangladesh Limited (IBBL)	1993
3.	Iran	:	Bank Melli Iran (BMI)	1992
4.	Jordan	:	Jordan Islami Bank (JIB)	1993
5.	Kuwait	:	Kuwait Finance House (KFH)	1993
6.	Malaysia	:	Bank Islam Malaysia Berhad (BIMB)	1993
7.	Pakistan	:	Muslim Commercial Bank (MCB)	1993
8.	Sudan	:	El Gharb Bank of Sudan (El Gharb)	1993
9.	Tunisia	:	Beit Ettamwill Tounsi Saudi (BEST)	1993
10.	Turkey	:	Faisal Finance Institution (FFI)	1993
11.	UAE	:	Dubai Islamic Bank (DIB)	1992

Table 1: List of *Sharia* Principles Practiced in Selected Islamic Countries.

Category / Countries	(A)	(B)	(C)	(D)
Bahrain	*Musharaka*	*Morabaha* Commission Service charges	*Qard hassan*	
Bangladesh	*Al-mudaraba* *Musharaka*	*Bai-mua 'zzal* *Bai-salam* Hire-purchase *Ijara* *Murabaha* Commission Service charges	*Qurd-e-hasana*	*Wadiah*
Iran	Civil partnership Legal partnership Direct Investment *Modarabah* *Mozaarah* *Mosaqat*	Forward delivery Transaction Instalment sales *Jo 'alah* Debt trading Hire-purchase	*Qard al-asanah*	
Jordan	*Mudaraba* *Musharaka*	*Morabaha* Commission Service charges	*Al-qird al-hassan*	*Wadiah*
Kuwait	*Mudaraba* *Musharaka*	*Morabaha* Commission Service charges *Istisna* Leasing	*Qard-hassan*	
Malaysia	*Al-mudharabah* *Al-musyarakah*	*Al-murabahah* *Bai bithaman ajil* *Bai al-dayn* *Al-ijarah* *Al-ijarah thumma al-bai* *Al-wakalah* *Al-kafalah* *Al-hiwalah* *Al-ujr*	*Al-qardhul hasan*	*Ar-rahn* *Al-wadiah yad dhamanah*
Pakistan	*Mushrika* Equity participation and purchase of share Participation term certificate (PTC) *Modarabah* certificate Rent sharing	Mark-up Purchase of trade Bills Buy-back arrangement Leasing Hire-purchase Development charges Loan with service Charges	*Qard-e-hasna*	
Sudan	*Mudaraba* *Musharaka*	*Morabaha* *Ijara* Commission Service charges	*Qard hassan*	
Tunisia	*Mudaraba* *Musharaka*	*Morabaha* *Taajir* Commission Instalment sales	Interest free	
Turkey	*Mudaraba*	*Morabaha*	Interest free	Trust

Category / Countries	(A)	(B)	(C)	(D)
	Musharaka	*Ijara* *Irara wa-iktina* Commission Service charges		
UAE	*Mudaraba* *Musharaka*	*Morabahat* Service charges	*Qard hassan*	

Notes:

(A) Profit and loss sharing principles,
(B) Fees or charges based principles,
(C) Fees services principles,
(D) Ancillary principles.

Sources: Bahrain: IBB's 1994 Annual Report; Bangladesh: IBBL's CAD letter dated 21 March 1994, Iran: The Law for Usury-Free Banking 1983; Jordan JIB's 1993 Annual Report; Kuwait: KFH's 1993 Annual Report; Malaysia: Money and Banking, Bank Negara Malaysia 1994; Pakistan: State Bank of Pakistan's BCD Circular no 13, 20th June 1984; Sudan: Ahmed, 1990; Tunisia: B.E.S.T Bank's 1992 Annual Report; Turkey: FFI's 1993 Annual Report; United Arab Emirates: DIB's 1992 Annual Report.

Table 2: Deposit Facilities Available at Islamic Banks in Selected Countries

Bahrain	Current accounts Inv. accounts Saving accounts Fixed term
Bangladesh	Current accounts PLS accounts: Saving Term deposit Short notice Inter-bank deposits
Iran	QH Current accounts QH Savings accounts Time or investment deposits Inter-bank deposits
Jordan	Trust accounts: Current Demand Joint inv. account: Saving accounts Notice accounts Fixed accounts Specific inv. accounts Inter-bank deposits
Kuwait	Current accounts Inv. accounts Saving accounts Limited period Unlimited period
Malaysia	Current accounts Saving accounts Investment deposits Other deposits Inter-bank deposits
Pakistan	Current accounts Savings deposits Fixed deposits Other deposits
Sudan	Current accounts Saving accounts Inv. deposits
Tunisia	Account at call Inv. accounts: PDA Saving (*tawfir*) Time deposits CPD
Turkey	Special current account PLS "*Modaraba*" accounts
UAE	Current accounts Saving accounts Inv. deposits: *Muddharabah* Specified

Notes:

Inv. : Profit and loss sharing principles,
QH : Fees or charges based principles,
PLS : Fees services principles,
PDA: Ancillary principles.
CPD : Committed participating deposit.

Sources: Bahrain: IBB's 1994 Annual Report; Bangladesh: IBBL's 1993 Annual Report, Iran: BMI's 1992 Annual Report & Hedayati (1993); Jordan JIB's 1993 Annual Report; Kuwait: KFH's 1993 Annual Report; Malaysia: BIMB's 1994 Annual Report; Pakistan: MCB's 1993 Annual Report; Sudan: El Gharb's 1993 Annual Report; Tunisia: BEST's 1992 Annual Report; Turkey: FFI's 1993 Annual Report; United Arab Emirates: DIB's 1992 Annual Report.

Table 3: The Modes of Financing and its Composition by Islamic Banks in Selected Countries.

Country		%	Total	%TA
	Musharaka	4		
Bahrain	*Murabaha*	96	100	88
	Qard hassan	*		
	Musharaka	3		
	Hire-purchase	13		
Bangladesh	*Murabaha*	51	100	57
	Bai mua 'zzal	19		
	Qard hassan	4		
	Others	10		
	Musharaka & Mudaraba	3		
Jordan	*Murabaha*	44	100	58
	Promissory Note	11		
	Qard hassan	*		
	Others	42		
	Musharaka	2		
	Mudaraba	*		
	Ijraa	9		
Malaysia	*Murabaha*	18	100	33
	Bai mua 'zzal	68		
	Qard hassan	*		
	Others	3		
	Musharaka	7		
Tunisia	Leasing	19		
	Murabaha	54	100	68
	Installment sales	20		
	Others	*		
	Musharaka	1		
	Ijarah	17		
Turkey	*Murabaha*	61	100	87
	Qard hassan	*		
	Others	21		
Country		**%**	**Total**	**%TA**
	Musharaka	2		
	Mudaraba	2		
U.A.E	*Murabaha*	85	100	70
	Others	11		

Notes:

1 : TA: Total assets
2 : * Less than 0.5 percent
3 : No figures available MBI of Iran, KFH of Kuwait, MCB of Pakistan, and El Gharb of Suda.

Sources: Bahrain: IBB's 1994 Annual Report; Bangladesh: IBBL's 1993 Annual Report, Malaysia: BIMB's 1994 Annual Report; Tunisia: BEST's 1992 Annual Report; Turkey: FFI's 1993 Annual Report; United Arab Emirates: DIB's 1992 Annual Report.

Table 4: The Distribution of Financing by Sector of Islamic Banks in Selected Countries.

Country		%	Total
Bahrain	Trading	6	100
	Manufacturing	58	
	Real estate	16	
	Agricultural	2	
	Services	1	
	Financial Insts.	17	
Bangladesh	Commercial	65	100
	Industrial	28	
	Real estate	3	
	Agricultural	*	
	Transport	2	
	Others	5	
Iran	Commercial & Services	43	100
	Industry & Mining	18	
	Construction & Housing	27	
	Agricultural	7	
	Others	5	
Jordan	General trade	28	100
	Industry & Mining	9	
	Construction	10	
	Agricultural	1	
	Transport	2	
	Miscllaneous	50	
Malaysia	Wholesale & retail trade	6	100
	Manufacturing	24	
	Construction	8	
	Real Estate	9	
	Agriculture	4	
	Transport & storage	1	
	Miscellaneous	45	
	Business services	2	
	Others	1	
Country		**%**	**Total**
Turkey	Metals	21	100
	Petro-chem	6	
	Textile	13	
	Constructions	5	
	Machinery	10	
	Agricultural	21	
	Paper-pulp	3	
	Food	11	
	Chemicals	8	
	Others	2	

Notes:

1. Sectoral breakdown of loans are not available for IBB of Bahrain, KFH of Kuwait, MCB of Pakistan, El Gharb of Sudan, BEST of Tunisia and DIB of United Arab Emirates.

2. Figures taken from the Fisal Islamic Bank of Bahrain's 1993 Annual Report are used to represent Bahrain.

Sources:

Bahrain: FIBB's 1993 Annual Report; Bangladesh: IBBL's 1993 Annual Report, Iran: BMI's 1992 Annual Report; Jordan: JIB's annual reprot; Malaysia: BIMB's 1994 Annual Report; Turkey: FFI's 1993 Annual Report.

Table 5: The Contingent Liabilities of Islamic Banks of Selected Countries.

Country		**%**	**Total**	**%TA**
Bahrain	LC & LG	100	100	3
Bangladesh	LC LG BFC Others	90 3 5 2	100	38
Iran	LC LG IC Others	66 18 11 5	100	13
Jordan	LC LG Others	69 28 3	100	4
Kuwait	LC LG FExc	25 40 35	100	10
Malaysia	LC LG FExc BFC Others	13 35 9 18 25	100	36
Pakistan	LC LG FExc BFC Others	43 28 16 12 1	100	3
Sudan	LC LG BFC Others	12 7 55 26	100	89
Tunisia	CA	100	100	5
Turkey	LC & LG	100	100	99
Country		**%**	**Total**	**%TA**
U.A.E	LC LG	40 40	100	12

Notes:

1. LC: Letters of credit, LG: Letters of Guarantee. IC : Islamic contracts, FExc : Foreign exchange contract, BFC : Bill for collection, CA : Contra accounts

2. Islamic contracts which is used in Iran only is actually a foreign exchange contracts facility.

Sources: Bahrain: IBB's 1994 Annual Report; Bangladesh: IBBL's 1993 Annual Report, Iran : BMI's 1992 Annual Report; Jordan: JIB's 1993 Annual Report; Kuwait : KFH's 1993 Annual Report; Malaysia: BIMB's 1994 Annual Report; Pakistan: MCB's 1993 Annual Report; Sudan: El Gharb's 1993 Annual Report; Tunisia: BEST's 1992 Annual Report; Turkey: FFI's 1993 Annual Report; United Arab Emirates: DIB's 1992 Annual Report.

Table 6: The Composition of Deposit Facilities and Total Sources of Funds of Islamic Banks in Selected Countries.

Country		**%**	**Total %**	**%TL**	**Sources of Funds**			
					Deposits	**SH**	**Others**	**Total %**
Bahrain	CA IA: SA TD	10 33 57	100	91	91	6	3	100
Bangladesh	CA & ConA PLS: SA TD SND	 19 45 32 4	100	84	84	3	13	100
Iran	QH CA QH SA ID IDB	34 5 52 9	100	92	92	*	8	100
Jordan	TrA JIA: SA F&NA IDB	20 8 71 1	100	81	81	7	10	100
Kuwait	CA IA: SA LP UP IDB	14 58 * 26 2	100	85	85	5	10	100
Malaysia	CA SA IA IDB OD	17 15 50 * 18	100	87	87	7	6	100
Pakistan	CA& ConA PLS: SA TD IDB	 20 45 24 11	100	89	89	3	8	100
Sudan	CA SA ID OD	57 2 10 31	100	59	59	7	6	100
Country		**%**	**Total %**	**%TL**	**Sources of Funds**			
					Deposits	**SH**	**Others**	**Total %**
Tunisia	CA SA ID: UD CD	11 13 49 27	100	74	74	17	9	100

Turkey	CA: Turkish Foreign PLS: Turkish Foreign	 4 6 11 79	100	87	87	7	6	100
UAE	CA SA IA IDB OA	21 18 59 1 1	100	83	83	5	12	100

Notes:

1. QH: Qard hassan, CA: Current accounts, SA: Saving account, ID: Investment deposits, IBD: Inter-bank deposits, OD: Other deposits, ConA: Contingency accounts, TD: Term deposits, SND: Short notice deposits, IA: Investment accounts, LP: Limited period, UP: Unlimited period, TrA: Trust accounts, F&NA: Fixed & notice accounts, UD: Uncommitted deposits, CD: Committed deposits, TL: Total liabilities, SH: Shareholder funds.

2. * Less than 0.5 percent.

3. Contingency accounts which are available at MCB of Pakistan and IBBL of Bangladesh comprise of marginal deposits placed by customers for using facilities such as letters of credit and bank guaranees.

Sources:

Bahrain: IBB's 1994 Annual Report; Bangladesh: IBBL's 1993 Annual Report, Iran: BMI's 1992 Annual Report; Jordan: JIB's 1993 Annual Report; Kuwait : KFH's 1993 Annual Report; Malaysia: BIMB's 1994 Annual Report; Pakistan: MCB's 1993 Annual Report; Sudan: El Gharb's 1993 Annual Report; Tunisia: BEST's 1992 Annual Report; Turkey: FFI's 1993 Annual Report; United Arab Emirates: DIB's 1992 Annual Report.

Table 7: The Composition of Assets and its Ranking among the Islamic Banks of Selected Countries.

Country	Cash		Financing		Investment		Other assets		Fixed assets		Total assets
	%	r	%	r	%	r	%	r	%	r	%
Bahrain	4	3	83	1	6	2	6	2	1	4	100
Bangladesh	33	2	58	1	*	5	8	3	1	4	100
Iran	21	2	65	1	11	3	2	4	1	5	100
Jordan	34	2	58	1	4	3	2	4	2	4	100
Kuwait	11	3	40	2	47	1	1	4	1	4	100
Malaysia	11	3	33	2	53	1	2	4	1	5	100
Pakistan	12	3	41	1	39	2	7	4	1	5	100
Sudan	16	3	25	2	31	1	15	4	13	5	100
Tunisia	14	2	78	1	-	-	4	3	4	3	100
Turkey	11	2	84	1	1	4	2	3	2	3	100
UAE	23	2	74	1	2	3	*	5	1	4	100

Notes:
1. * Less than 0.5 percent.
2. r: rank

Sources:

Bahrain: IBB's 1994 Annual Report; Bangladesh: IBBL's 1993 Annual Report, Iran : BMI's 1992 Annual Report; Jordan: JIB's 1993 Annual Report; Kuwait : KFH's 1993 Annual Report; Malaysia: BIMB's 1994 Annual Report; Pakistan: MCB's 1993 Annual Report; Sudan: El Gharb's 1993 Annual Report; Tunisia: BEST's 1992 Annual Report; Turkey: FFI's 1993 Annual Report; United Arab Emirates: DIB's 1992 Annual Report.

دراسة مقارنة للممارسات المصرفية الإسلامية

سودين هارون
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جامعة أوتارا – ماليزيا

المستخلص: تفحص هذه الورقة أعمال البنوك الإسلامية في إحدى عشر بلدًا مسلمًا، وتشمل الموضوعات المبحوثة: تطبيق مبادئ الشريعة، واستخدامات الأرصدة ومصدرها وثمة فوارق في عدد من المبادئ الشرعية، المطبقة في الأعمال المصرفية كما أن هناك اختلافًا في مصادر الأرصدة واستخداماتها في عينة المصارف المدروسة.

ففي مصادر الأرصدة يعزي الاختلاف لأنواع الحسابات الموجودة وإلى مبادئ الشريعة التي اختارتها تلك المصارف لتقديم خدماتها، وفي استخدامات الأرصدة، تتركز أعمال معظم البنوك في التمويل بالمرابحة. وهناك اختلافات في التمويل القطاعي سببها الأساسي اختلاف مستوى التنمية الاقتصادية في البلاد التي تعمل فيها هذه المصارف.