Chapter 7
Summary and Conclusion

Since time immemorial, trading and finance have been important economic activities. Over a period of time they have played pivotal role in the economic and social development around the world. They have been recognized as engine of growth. With the increase in the volume of economic activities, the contours of finance and trading around the world have undergone tremendous change. The development of the concept and activities of conventional banking has paved the way for new forms of banking services through different options and functioning of money market. The core of commercial banking is the concept of 'creation of credit' which is essentially based on the concept of 'interest'. Since Riba (Interest) is prohibited in Islam and there is general consensus among scholars and jurists on this issue, Muslims around the world have been facing considerable difficulty in being associated with the conventional banking systems. Hence the concept of Islamic banking in different parts of the world has emerged as a viable solution for Muslims to avoid interest in their financial activities.

The thought in true spirit and practice of establishing Islamic banking system was initiated in the 1960s with the thrust of abiding on Islamic principles of prohibition of Riba (interest), uncertainty and gambling etc. Thus Islamic banking is not only a financial institution but also expressing faith in Allah (SAW). This has been a significant factor in the rapid expansion of Islamic banks around the world.

In the background of the above, the present study is a modest attempt to analyze the historical background and development of Islamic banking during the last fifty years or so in Saudi Arabia and Thailand. More specifically the emphasis is on examining evolution of Islamic banking in the two countries and to ascertain the similarities as well as differences in
the operating system between the countries. It is historical -cum- analytical study and the approach to the issues in basically operational. In the present chapter, a summary of the main findings is presented in order to give a more concise picture.

The Islamic banking system is based on the principle of Islamic laws to guide financial activities which are derived from the Holy Quran and The Prophetic Tradition (Sunnah). Financial activities on Islamic ethos started soon after Islam was born in Makkah and the Prophet Muhammad (PBUH) was appointed Messenger of Islam. During this time trade and business were concerned in loan with interest charges. When Prophet (PBUH) received a revelation from the God, the lending with Riba (Interest) charging was eliminated from society and the various activities were formulated which were in consonance with Islamic principles. Besides, there were several practices of Islamic finance that existed during the period which were subsequently developed as typical for this modern era such as Mudarabah (Profit and loss sharing), Benevolent lending, Sale on credit, and bai al-salam (forward sale) etc.

The Financial Institution during the early era was called "Baitul Mal" (public treasury) which emerged during the Prophet's time (Saw). The sources of Baitul Mal consisted of Zakat (wealth tax), Kharaj (land tax), Jazia (poll tax), Custom duties, Tolls Sadagah (donations) and property with unknown owners. The income of Baitul Mal was used for army and salary for official state and for public benefits. The Baitul Mal can be divided into three types such as royal treasure, state bank for empire, and the treasury of all Muslims.

The closing of 19th century has been considered as the era of Islamic resurgence, which created a solution in the application of Shari'ah Laws in financial transactions. The first attempt was in the mid1940s in Malaysia, the establishment of interest-free bank to
invest prospective pilgrim savings in accordance with Shari'ah principle, it was, however, unsuccessful. In the late 1950 the local Islamic banking was established in Pakistan, the lending without interest. A Group of pious landowners deposited fund in the bank without reward and lended money to the poorer landowners for their agricultural activities without interest with only a small fixed amount for administrative fees for operating cost of bank. After Pakistan an attempt was made in Egypt in 1963 the Mit Gamr saving bank was established in Egypt as the motivation of the Islamic banking in modern era to pave the way for other countries which were looking for the Islamic banking system to apply in their region. The establishment of the Islamic Development Bank (IDB) in 1975 was the most important development of Islamic banking history which was established by the Organization of Islamic Countries (OIC). Islamic Development Bank (IDB) was an inter-governmental bank purposed at providing funds and extending fee-based financial services and profit-sharing financial assistance to the member countries. After the IDR there followed the first private interest-free bank in 1975 named the Dubai Islamic Banks. In 1977 three more Islamic bank were incorporated, namely Faisal Islamic Bank of Egypt, Faisal Islamic Bank of Sudan, and Kuwait Finance House. This is the development of Islamic banking in recent past. It can be noted that the one successful factor of Islamic banking was shown that Muslims attempt to find alternative ways to eliminate Riba (interest) from the conventional bank which was prohibited in Shari'ah (Islamic law) for expressing their faith to God. Thus, most Muslims in the world were ready to apply the Islamic principle in their financial dealings when the new Islamic financial instruments were proved in accordance with Shari'ah.

The thrust of Islamic banking is the operation of a financial institution derived from Islamic principles. It means that the banking operations are not eventually concerned with the profit motive. Consequently, the main elementary process of Islamic bank is mobilization
of funds from savers (investor) by saving fund in bank’s account and providing to who make better (entrepreneur) on Mudarabah principle (profit-sharing). Thus, bank should be careful to find out entrepreneur who have ability to exploit the profitable investment, since the savers and investors are different sets of people, they need considerable information about each other. This information involves transaction cost that is not free. Then Islamic bank removes some mismatches in the taste, maturity terms and size of needed fund between two sides.

All Islamic banking models are a two tier of Mudarabah contract, first contract among the depositors and bank, and the second between the bank and the parties (whom financier is provided). Thus the relation status of Islamic bank’s client is that of partner, investor and trader, whereas in conventional bank the relation is that of creditor or debtor. In addition, the models of banking have led to a variety that can be divided into two principle models of balance sheet. First, the integration asset and liability side based on two-tier Mudarabah on the concept of profit-sharing. On the other hand only liabilities sides of the balance sheet classified into two windows, one for demand deposit and the other for investment balance. Islamic banking attempts to eliminate interest by using instruments both for mobilizing savings and distribution savings. Since people need banking services but interest is prohibited, thus Islamic bank has to seek alternative ways for various banking instruments to serve people. This is the major challenges of Islamic banking. The Differences between of Islamic bank and a Conventional bank can be summarized as under.

(i) Principle: Islamic banks follow Shari’ah given by Allah, Conventional banks follow manmade principles for operation. (ii) Sources of earning: conventional bank interest is the main sources of income. (iii) Risk sharing: risk is shared among borrower, lender and bank for Islamic bank but in conventional bank risk is fully transferred to others. (iv) Profit Maximization: Islamic bank aims at maximization profit in rule of Shari’ah but in
conventional bank the maximization profit without any restriction. (v) objectives: Islamic bank works as trading concern to generate its income but the prime goal of conventional bank is the maximization of shareholder's value at any cost, nature of earning; income of Islamic bank depends on business environment it may be loss but income in conventional bank is constant even if business suffers from loss it charges fixed rate of interest.

The Present State Asset of Islamic Finance is growing as a source of finance for Islamic and other investors around the world. The global market for Islamic financial services was measured by Shari’ah compliant asset and is estimated by the UK Islamic Finance Secretariat (UKIFS) to have reached $1,150bn at end-2010, 21% up on $933bn in 2009. Assets are likely to have grown a further 14% in 2011 to reach $1,289bn, making a rise of about 150% from $509bn in five years since 2006. The largest centres remain concentrated in Malaysia and the Middle East, including Iran, Saudi Arabia, UAE, Kuwait, Bahrain and Qatar.

Sources of Islamic Law (Shari’ah) can be divided in to Primary Sources and Secondary Sources. The primary sources are the Quran and Sunnah and secondary sources are called “ijtihad” literally means effort, ijtihad observes a particularly methodology called “The roots of the law” (Usul al-Figh) which include the recognized method of reaching a decision as Ijtima, Qiyas, Istihsan, Maslaha mursalah, Istishab, Sadd Zariah and Urf. The interpretations of both revealed and non-revealed knowledge have emerged in different Fiqh schools. Hence, the Major Schools of Islamic Law (Shari’ah) can be divided into four major Fiqh schools. 1) Hanafi School of thought was established by Imam Abu Hanifah (80-150AH), 2) Malikee School of thought adheres to the teaching of Imam Malik (96-178AH), 3) Shafi’i school thought founded by Imam As-Shafi‘I (149-204AH), 4) Hanbali school thought was founded by Imam Ahmad ibn Hanbal (163-240AH).
Shari'ah ordains that any increase on capital over for creditor's demand or above principal instead time as a condition for extending credit, are Riba or Interest and strictly prohibited. The three-letter past-tense root of the term is Arabic verb “raba” literally means increase, addition, expansion or growth. The basic meaning of Riba can be defined as anything pecuniary or non-pecuniary, in excess of the principal of a loan that must be paid by the borrower as condition for extension its maturity. The reason of prohibition, for the Islamic rationale is the exploitation. Interest based violates human's birthright to oppress the poor in time of hardship which further aggravates social and economic disparities in society. It results in inefficient allocation of society's resources, and contributes to the instability of the system. The final reason is that the Holy Quran lays down unambiguous orders against all Riba transaction. It is not necessary that reasons must be advanced for order enjoined in it. There is a finer distinction between profit and interest. The difference is that profit are the result of initiative, enterprise and efficiency, they result after definite value-creating process which is based on risk not so with interest. In case of profit one has to work to ensure it while in interest one knows the return in advance and that is without any risk.

Present day, there are various Islamic Financial Transactions in Islamic bank as Wadiah (Safekeeping), Wadiah Yad Amanah (Safekeeping or Trustee), Wadiah Yad Damanah (guaranteed safe-custody), Musharakah (partnership), Mudharabah (Profit sharing), Murabahah (Mark up Financing), Bai Bithaman Ajil (Deferred payment), Ijarah (Leasing), Qard al Hasan (Interest Free Loan), Salatn (Forward Sale),Istisna (Commission to Manufacture Sale), Bai Al Inah (Same Item same repurchase), Al Rai dayn (Debt Sale), Al-kaifalah (Guarantee), Al-rahn (Mortgage or Pledge), Al-Wakahah (Agency), Al-sarf (Currency of Exchange) and Al-Ujr (Mode of Fee).
As far Saudi Arabia is concerned, before the discovery of oil and up to 1938 there were no banks in Saudi Arabia. Ibn Saud, the Kingdom's King was suspicious of banks being not in the interest of Kingdom and Muslims at large. During the early 20th century an increasing number of pilgrims (Haj) to Makkah and Madinah paved the way for money exchange business. However, the operation money exchanger did not cover all the banking activities which were prevailing in the world in modern times. Thus, the Kingdom's first foreign banking was opened by Dutch in 1928. The inability controls of the government for the monetary problems were faced due to the lack of an adequate institutional structure and absence of banking system. In 1932, the General Finance Agency (now the Finance Ministry) was established. It did fill the gap in economic structure of the Kingdom. After the exploration of oil in 1939, Saudi Arabia became an attraction for foreign banks for opening branches in the Kingdom. Hence, in 1948 the French Banque de l’Indochine and Palestine International banks were opened in Jeddah. In 1950 the three international banks were opened including The British Bank of Middle East, The National Bank of Pakistan and Bank Misr of Egypt. The National Commercial Bank (NCB), the first Saudi Arabia bank was established in 1953 by a royal Decree of King Abdul Aziz. In 1957, the Riyadh Bank which already founded as a joint stock company was established. In 1989s Al-Rajhi Banking and Investment Corporation was established as the largest money exchange licensed as a commercial bank. Hence, NCB, the Riyadh Bank and Al-Rajhi Banking and investment Corp are the only Saudi Arabia's commercial banks which are fully Saudi Arabia owned. On 20th April 1952 a Royal Decree ordered the establishment the “Saudi Arabian Monetary Agency (SAMA)” to be the Kingdom's Central Bank with 500,000 Saudi Gold sovereigns or US$ 6 million (equivalent to SR 20 million) as the capital at a rate of US$12 per sovereign. SAMA’s monetary operation expanded, and included the 1952 issue of the Saudi gold sovereign, the 1953 issue of pilgrim receipts, a kind of modified bank note, the 1960
stabilization of the silver riyal and since 1963 the issue of regular currency. In history, as a milestone in Saudi Arabia bank that is “Saudization for Foreign Banks”, as early 1968, SAMA was approaching many branches for foreign banks in the Kingdom in an attempt to convert these banks into a Saudi joint stock company with a Saudi participation of 60 percent. The foreign bank can be maintained a 40 percent equity stake in the bank. In Saudi participation can be divided into Saudi nationals normally 20 percent in the hands of prominent Saudi business families and the rest 40 percent with the general public.

The Commercial Banks in Saudi Arabia were concerned in short-term credit, and most loans granted by these banks went to the construction and commerce sectors. Saudi Banks were no different to the international banking community in terms of normal banking services. The last two decades have witnessed a growth of commercial banking which has reflected the needs of economic development in the Kingdom. The 12 existing commercial banks play an important role in the financial sector in the Saudi Arabia which were listed as The National Commercial Bank, The Saudi British Bank (SABB), Saudi Investment Bank (SAIB), Alinma bank, Banque Saudi Fransi (BSF), Riyad Bank, Samba Financial Group (SAMBA), Saudi Hollandi Bank (SHB), Al-Rajhi Bank (RAJHI), Arab National Bank (ANB), Bank Al-Bilad and Bank Al-Jazira (BJZ). Three of these banks NCB, Riyadh Bank and Al-Rajhi are owned fully by Saudi Arabia.

In the early stage of its development of banking in Saudi Arabia, there were ambiguities in SAMA which faced the dilemma of how to manage banking activities in Saudi Arabia without violating Islamic codes. Saudi Bank charges and pays interest rates, but they are reported as “fees” and “commission”. SAMA is not to prohibit these charges, since the banks cannot operate efficiently without these charges. Shari'ah is the law of the land in Saudi Arabia, while it does not have an Islamic banking law, there is only banking law. There are many Muslims whose religious sentiments are against earning or paying
interest because of the question of Riba. Consequently, the deposits bearing interest (or commission as it may be called) in Saudi Arabia is less than elsewhere. Another SAMA’s reason is its attempt to refuse a license to Islamic bank for political reasons, because of the creation of an Islamic bank would mean the existing twelve conventional banks are un-Islamic. On the other hand, SAMA cannot publicly go against Islamic banking, since it would involve an ideological struggle with fundamentalists in Saudi Arabia and there are no easy answers to solve these problems. In Saudi Arabia Islamic Law is law of land but Islamic banking was not allowed until 1987. The first permit granted to an Islamic bank was in March 1987, when SAMA was obligated to the largest money exchanger in the Kingdom, the Rajhi Company for Currency Exchange and Commerce to become a bank. The struggle over Al-Rajhi was a lengthy fought for more than five years over the giant money exchanger Rajhi. In the end, SAMA had no option but to accede to the general demand the Al-Rajhi be brought into the system. Although Al-Rajhi was prohibited by SAMA from calling itself Islamic, because if Al-Rajhi was to be given a license and designated as Islamic bank, this would mean that the other financial institutions were non-Islamic, it was granted a license on the condition that Al-Rajhi would refrain from using ‘Islamic’ in title. Subsequently, the Al-Rajhi Banking and Investment Corporation became the world’s largest Islamic commercial organization with assets worth over 10 billion dollars.

It can be summarized that, there are 12 banks of Saudi Arabia, three banks are wholly owned by Saudis, The National Commercial Bank (NCB), Al Rajhi Bank (RAJHI) and Riyad Bank and the rest are nine foreign joint ventures banks. For Islamic bank license was allowed only to one bank Al-Rajhi, the first Islamic bank of Saudi Arabia and the world’s largest Islamic bank. At the end of the 2006 there were three Islamic retail banks (Al-Rajhi, Al-Jazira and Al-Bilad) which reported all their operations conducted in a Shariah-compliant manner (full pledge). While, nine other Saudi Arabia banks conduct a portion of
their business along Islamic lines, keeping separate from other operations and there are Islamic windows to provide a Shari’ah-compliant service and production for client.

Thailand is predominantly a Buddhist country. Most Muslims are mainly concentrated in the south of Thailand such as Songkla, Satun, Pattani, Yala and Narathiwat. The rural Muslims are engaged in agriculture small-scale and are very traditional. Before the existence of Islamic bank of Thailand, Thai Muslims were depositing funds across the border in Malaysian bank. Though, Thailand was never a British colony it was a British-owned bank, the first conventional bank in Thailand was the British-owned Hong Kong and Shanghai Bank were established in 1888. The Chartered Bank of India, Australia and China followed its footsteps in 1984. Next in line was the Banque de l’ Indochina in 1987. The domestic or local bank was the Siam Commercial Bank, presently known as Thai Commercial Bank, established in 1906. The Financial Institution in Thailand can be divided into two groups i.e. banking and non-banking. Banking institutions include Bank of Thailand (BOT), Commercial Banks, International Banking Facilities (IBF), Specialized Bank (i.e. the Government Saving Bank (GSB), Bank for Agriculture and Agricultural Cooperative (BAAC), EXIM Bank and the Government Housing Bank (GHB)). The central bank of Thailand named as The Bank of Thailand (BOT). Initially, in 1939 the Thai National Banking Bureau performed all central banking activities. After that, in 1942 these activities were taken over by the Central Bank, the Bank of Thailand (BOT) until now. The most dominant group of financial institution after commercial banks group is Specialized Financial Institutions. It is interesting to note that the Islamic Bank of Thailand is included in Specialized Financial Institutions.

History of Islamic Bank of Thailand: Scholars have viewed the starting of Islamic banking and finance in Thailand in 1987 when Pattani Islamic Savings Cooperative was established. The success of this Cooperative was Shari’ah complaint to encourage the
establishment of other financial institutions. By the year 2001, four other Islamic Financial Institutions were established. The Ibnnu Affan Saving Cooperative (Pattani), The As-Siddiq Saving Cooperative (Songkhla), The Saqaffah Islam Saving Cooperative (Krabi) and The al-Islamiah Saving Cooperative (Phuket). In 1988, the Government Saving Bank (GSB) first introduced the Islamic banking products and services to Muslims in Thailand with the implementation of “Islamic Window” by with in its premise to cater for those wanting to adhere Shari’ah. Following its success in 1999 similar feature was established by the Bank of Agriculture and Agricultural Cooperative (BAAC) in Southern branches. In 2001 the setting up of a full-fledged Islamic branch was next major step in the progress of Islamic banking in Thailand by the state owned Krung Thai Bank. The debut of Islamic Banking in Thailand, in late 2001, the formation of the country’s first Islamic bank was proposed by Thai Finance Ministry, with the ministry holding up to 25 percent of the Bt1 billion capitals. In June 2002, the bill of establishing an Islamic Bank in Thailand was tabled in the senate. The Islamic Bank of Thailand Act B.E.2545 was passed, effective 22 October 2002 B.E.2545. These laws paved the way for the establishment of the first full-pledged Islamic bank of Thailand in 2003. Although in 2003 the Islamic Bank of Thailand was established, the actual idea for the establishment can be traced back to 1994 when the Royal Thai Government signed the “Indonesia-Malaysia-Thailand: Growth Triangle – IMT-GT Project”. As the majority of the population in this tri-partite area are Muslims. Hence, Islamic bank is an instrument of financial dealing for Thai Muslim in this project area.

The Islamic Bank of Thailand was administrated by the Committee of Islamic bank which consisted of the Board of Directors, Shari’ah Advisory Council, Executive Board, Advisor of the Board and Credit Approval sub-committee and supervised by the Ministry of Finance and Bank of Thailand (Central bank of Thailand). For Share Holding Structure, Finance Ministry can be holding up to 49% and according to regulations, foreign holding are
limited to 33%. However, the private sector can hold not more than 15%. This rule was prescribed by The Islamic Bank of Thailand Act B.E.2545. Islamic bank has registered capital of Baht 1000 million which is divided into 100 million common shares with the par value of Baht 10 each. The Bank has paid up capital of Baht 696.86 million. The products of Islamic bank are similarity with the conventional bank products but there are differences to apply in Islamic bank due to the Islamic bank product must be in accordance with Islamic law (Shari’ah), it can be classified as financing for business, financing services, trade financing facilities, ATM card, zakat account and MFC Islamic Fund etc.

Islamic Banking in Saudi Arabia and Thailand:

Islamic banks in the true sense must avoid all forms of speculation which give rise to phenomenon of interest and accordance with principle of Islamic Law (Shari’ah). Consequently, Islamic bank in Saudi Arabia and Thailand are also restricted to in accordance with Islamic Law. In Thailand, there is only one Islamic bank in the country, it officially opened on 2003 (10 years ago) which is supervised by the Ministry of Finance and Bank of Thailand under category of specialized bank. Islamic bank of Thailand is a state enterprise, the government can be holding up to 49%, and foreigners holding are limited 33% and private 15%. In Saudi Arabia, SAMA has ambiguity in various issues which still remain unresolved. SAMA was faced with the dilemma of how to prompt banking without violating Islamic codes. However, Saudi Arabia cites that there are no interests in the all banks in Saudi Arabia. They are reported as fees and commissions. Therefore, it still has coexistence in conventional and Islam Finance issues. Actually, SAMA has allowed license of Islamic bank only for Al-Rajhi Bank which was not allowed from calling itself “Islamic” with the political reason due to when Al-Rajhi called as Islamic bank, it means that remaining 11 banks in Saudi Arabia are not Islamic banks. Al-Rajhi Bank is the first Islamic bank in Saudi Arabia and the world's largest Islamic bank which was established on 1988 (25 years ago) as
the private owner. It can be summarized that there is only one Islamic bank license in Saudi Arabia and 3-4 banks are reported to conduct in Shari‘ah-compliance manners (Full Pledge). The rest nine banks have Islamic window to provide Shari‘ah service in Saudi Arabia.

Islamic financial instruments in Islamic bank of Saudi Arabia and Thailand are similar in some areas with occasional differences in some instruments (products) due to the differences of Fiqh School of thought. Therefore, “Bai-inah” principle was used in Islamic bank of Thailand which allowed by Shafi‘i Mazhab while Islamic banks in Saudi Arabia are not allowed Bai-inah but they apply “Tawarruq” principle in their banking operations. Besides, Islamic banking in Saudi Arabia has special products to offer services while Islamic bank in Thailand is not ready to provide their customer due to many factors such as Ladies Account or Ladies Bank, Takaful (Insurance), Stock Market Exchange Services, IBAN and Credit Card.

Thailand is a Buddhist country and Muslims are a minority. Hence, the customer target is not only restricted to Muslims alone, but it attempts to target Buddhist customers too. Initially, Thailand had no Islamic Bank due to which a large number of Muslims had no option for quite some time. Hence with the operation of Islamic bank, paucity of Muslim officers was felt and they were less experienced in banking operations and Buddhist officers are in large number in Islamic Banks. However, Muslim and Buddhist officers are lacking knowledge in Islamic principles to explain to customers. It can be noted that in Thailand there is no Islamic Economics subject in university education. Thus it is necessary to include this subject of Islamic laws for financial dealings. Support from foreign countries practicing Islamic banking is necessary for Thailand if the experiment of Islamic banking is to be successful. Hence cooperation and assistance from Saudi Arabia could be of great help in developing and sustaining the slowly emerging Islamic banking system in the country.