

Pyramid of *Maslahah* for Social and Economic Welfare: The Case of Bank Islam Malaysia Berhad

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Abstract

Islamic financial system is no longer a new phenomenon. The existence of Islamic banking over the past fifty years has proven that Islamic financial system has a stand and desirable by society. *Maqasid shari'ah* or the higher objective of *shari'ah* is viewed by the contemporary Muslim bankers and academicians as an alternative tool to emphasize on issues relating to social and economic ends of financial transactions. Instead of over emphasizing on profit maximization in conventional banking, the *Maqasid shari'ah* mechanism contributes to the reorientation of Islamic finance and banking. This is seen in the social welfare institution process of innovation as promoted by Islamic moral economy. Islamic economy suggested the establishment of Islamic social banking in order to fulfil the social and economic needs of the Muslim. Thus, Islamic financial institutions (IFIs) focus is mainly on the social and economic welfare, benefits, and needs. Moral values is the major mutual concern of the system, neither profit maximization nor competitiveness as practiced by existing finance and banking system. This paper shed light on the prospects of pyramid of *maslahah* in social and economic welfare area of IFIs such as the practice of charity, *waqf*, *zakat* and *Takaful*. Bank Islam being the pioneer Islamic bank in Malaysia is chosen in assessing their role on promoting social and economic welfare as outlined by *maqasid shari'ah*.

Keywords: Islamic financial system, social and economic welfare, *maqasid shari'ah*, social banking

1. Introduction

Islamic finance mirrors the existing conventional system, which consists of Islamic banking, Islamic insurance (*takaful*) and Islamic capital market. Presented over fifty years ago, Islamic finance has developed, grows and accepted as an alternative to the conventional way of doing business. Bases of Islamic finance are *shari'ah* or Islamic law, which all IFIs will need to adhere to. This is said to be the differentiation factor between Islamic and conventional financial system. *Shari'ah* generally is predicated on benefits to individual and society at large. Its laws are designed to protect these benefits and to facilitate the improvement and perfection of the human life conditions (Kamali, 2012).

A few Islamic economic scholars namely Ahmad (1980), Chapra (1979), Khan (1984) and Siddiqi (1980) have claimed that the current practice of Islamic banking and finance have yet to address the moral issues (Asutay, 2007, 2012). Incorporating moral elements in the Islamic banking and finance has restored a new breath of the Islamic moral economy concept (Tripp, 2006). As stressed by Mohd Nor (2012) and Asutay (2012), the idea of introducing Islamic moral economy is not to diminish or dilute the aspiration idea of Islamic economy founded by earlier scholars but it is to impose the moral and social aspects in the Islamic economy which were neglected in the current Islamic banking and finance practices.

It is suggested that Islamic social banking should be established, learning from the Western social banking system to fulfill the developmental needs of Muslim societies as well as for the IFIs to deliver their social obligations in promoting a balance between social and economic justice (Asutay, 2007). This is seen to be a closer concept of Islamic moral economy. In regard to research, social banking has received interest (Scheire and Maetelaere, 2009) but in fragmented way and in different contexts. For instance, the issues of ethical banking has been addressed in few Western countries such as Germany, Italy, Sweden and Switzerland (Mayo, 2001: Mayo and Guene, 2001: Reifner, 2001: Weber and Remer, 2011) while the social development issue is the main focus in the Asian nations such as Bangladesh and India (Tilakarantna, 1993). Little research has attended the issue of social banking from the Islamic perspective or any of the existing studies report on the institutionalization of the Islamic social banking anywhere in the world.

This study discussed on the social banking concept from Islamic and conventional view. Deliberation on *maqasid shari'ah* and pyramid of *maslahah* with regards to Islamic bank operation and activities were also

included. To further understand the *shari'ah* function in Islamic banks in promoting social and economic welfare, we highlighted the case of Bank Islam Malaysia Berhad to confirm that as *shari'ah*-based bank, it is their duty to ensure social and economic welfare of the society are taken into consideration.

2. Literature Review

2.1 Social and Economic Welfare

Society well-being is currently measure upon individual's well-being. Specifically, social welfare is postulated to be an increasing function of individuals' well-being but not to depend on any other factor. Kuklys and Robeyns (2004) regard social welfare as an aggregation of the individual welfare by means of an aggregator function, which can be interpreted as a social welfare function. Social welfare functions can have different forms, implying that some of them will take distributional considerations into account while others will not.

Social welfare aims at providing services to weaker sections of the population who because of various handicaps such as physical, mental, economic and social, are unable to make use of social services provided by society or have been traditionally deprived of these services (Bharadwaj, Clark and Kulviwat, 2005).

According to Vasey (1958), social welfare included two main characteristics namely the utilisation of welfare measures to support or strengthen the family as a basic social institution through which needs are met; and the intent to strengthen the individuals' capacity to cope with their life situation.

The provision of social welfare includes services for children, youth, women, aged, scheduled castes, scheduled tribes, other backward classes, minorities, disabled, drug addicts, and economically underprivileged such as destitute and unemployed. Social welfare programmes are, therefore, directed to enhance their conditions. Thus, proper administration is needed.

According to Lewis (2010), early Islamic writers emphasized the social welfare aspect in terms of those activities that increase utility (*musalih*) and those that do not (*mafasid* or disutilities). The main difference lies on the prohibition of interest.

Samuelson (2004) stated that economic welfare broadly refers to the level of prosperity and living standards of either an individual or a group of persons. In the field of economics, it specifically refers to utility gained through the achievement of material goods and services. In other words, it refers to that part of social welfare that can be fulfilled through economic activity. Economic welfare may be defined roughly as that part of welfare that can be brought into relation with the measuring rod of money (Pigou, 1920).

The idea of providing assistance for socioeconomic development has begun since the 1960's. Nonetheless, the concept of social banking as a new banking system was introduced in the West two decades later (Mayor, 2001; Relano, 2011). It took another decade for the social banking system to spread to the United States, Europe and the rest of the world (Sairally, 2007). It is a community financing centre that measures profitability through the financial and social return.

2.2 Social Banking – Conventional View

Social banking is defined in various ways. Reifner and Ford (1992) stated that social banking is banking that fights poverty. Benedikter (2011) defined social banking as banking with a conscience. Here, the bank focuses on investing in community, providing opportunities for the disadvantaged, and supporting social, environmental and ethical agenda. According to Institute for Social Banking (2011), 'Social Banking' describes the provision of banking and financial services that consequently pursue, as their main objective, a positive contribution to the potential of all human beings to develop, today and in the future. Accordingly, social banking is seen as banking aim at making positive impact to profit, environment (Weber and Remer, 2011) and people (Scheire and Maertelaere, 2009). These three different criteria are considered to be equally importance in the social banking concept.

Weber and Remer (2011) claimed that social banking is a way of value driven banking that has a positive social and ecological impact at its heart, as well as its own economic sustainability. Therefore, social banks see themselves as contributing to solving social and environmental problems. This is done through providing credit to create sustainable growth. Sustainability is about taking responsibility for actions and consequences so future generations are not deprived of any possibilities. Das (2013) assert this saying that social banking provides the basic financial support required by the economically weaker sections of the society and thereby enables them to participate and benefit from the developmental programmes of the Government.

According to Mayo (2001), Mayo and Guene (2001), Reifner (2001), Relano (2011), Weber and Duan (2012) and Weber and Remer (2011), social banking is the practice of financial institutions that is conscious over the

social outcomes and positive impact of their financial activities on society, the environment, culture and/or sustainable development. Gartner (2009) elaborated social banking in a slightly different manner in that it is “.....an emerging approaches to retail banking that makes depositing, lending and the connections between depositors, borrowers and financial institutions transparent. It has its roots in social/consumer trends, including social responsibility and social-network participation and financial and banking trends, such as financial social network, microfinance and personal finance management.”

In short, the purpose of social banking is not just to maximize profit but also to cater for the development needs of the society in uplifting their social status and improving their standard of living (Tilakarantna, 1993). Hence, the target customers would be the financially and socially excluded group which includes women, ethnic minorities and low income individuals who do not meet the financial criteria of the mainstream banking system (Sairally, 2007). Besides, social banking is also expected to meet the ethical requirement, which has been its selling tag to remain unique and resilient in the competitive financial market. Therefore, the dynamic of social banking succumbs to the marriage between banking for the minority groups and banking with ethical conducts.

2.3 Social Banking – Islamic View

Islam gives attention to business through the moral aspects to achieve maximum profits. This shows that Islam is concerned with the economy and morality, both of which cannot be separated. The *Qur'an* also considers environmental sustainability as one aspect of social responsibility. The businesses should assume the responsibility of environmental sustainability as stated in the *Qur'an*:

“And when he turns his back, His aim everywhere is to spread mischief through the earth and destroy crops and cattle. But Allah loved not mischief” (Qur'an, 2: 205)

The relationship between human and environment is very close and cannot be separated. Islam has clearly prohibited anything that is harmful to individual or hazardous environmentally. Thus, it is one of obligation for human to care for the well-being of society to guarantee environmental sustainability for the next generation.

While in social welfare, Islam highly encourages charity to those in needs and less ability in work through *sadaqah* and benevolent loans (*Qardul Hasan*). *Sadaqah* signify donation to charity and required that both voluntary donations as charitable contributions.

“So fear Allah as much as ye can; listen and obey and spend in charity for the benefit of your own soul and those saved from the covetousness of their own souls,-they are the ones that achieve prosperity” (Qur'an, 64: 16)

The verse describes the responsibility of Muslim to help others through charitable contributions and donations and stinginess is abomination in Islam. Besides affecting social welfare, the act of benevolent loans can also bring double benefits for individuals and corporations. Firstly, it creates a positive image for individuals and corporations and secondly, creates chance for a new business formation in gaining profits.

The experimentation of Islamic banking and finance developments as early in the 1960s has had socioeconomic development as its principal motive with thinking that it can be an alternative financial system based on the principles of justice and equity (Dar, 2004). The precursors to Islamic commercial banking involved the idea of social and community banking, institutionalised through the Mit Ghamr Savings Bank (1963-67) and the Nasr Social Bank (1971) in Egypt. The launch of the Islamic Development Bank (1973) in Jeddah also showed a concern for development banking at an international level.

According to Adelabu et al, (2011), Wahbah Al-Zuhayli, a renowned *Shari'ah* scholar endorses the socioeconomic framework of IFIs in his famous book *Al-Fiqh Al-Islami wa-Adillatuh*, “The primary goal of Islamic financial institutions is not profit-making, but the endorsement of social goals of socioeconomic development and the alleviation of poverty”. Therefore, for Islamic banks, while making profit from the business is acceptable, the accumulation of profit without utilisation for the betterment of the community is forbidden. With this regards, Islamic banks are likely to be sensitive to the needs of the society, promote more social welfare programmes and activities, and make more contributions towards the needy and the poor.

In promoting balanced economic and social development goals, Al-Zuhayli further asserted that, Islamic banks must consistently adhere to the prescribed guidelines by the *Shari'ah*. These include transparency in the documentation and operation, having sense of accountability to diverse stakeholder groups and respect the *Shari'ah* rulings passed by the *Shari'ah* advisors even though the rulings are in conflict with their profit-making interest.

3. Islamic Financial System and Pyramid of *Maslahah*

3.1 Islamic Financial System

The philosophies of Islamic financial system are risk sharing and the promotion of social and economic welfare, which extend beyond profit maximization (Ali Adnan Ibrahim, nd.). It limits the risk-taking individual for the betterment of society as a whole. Hence, making the objectives of IFIs differs from the conventional financial institutions. The latter only focuses on the aim of viability, whereas the former entails two more objectives other than viability, which are region and social responsibility. This is because the inherent principle, in any dealings done by human beings must be within the commandment of Allah.

The Islamic financial system mechanism is based on the guidelines provided by *Shari'ah*. The *Shari'ah* covers all aspects of life and meets all human being needs. The *Shari'ah* principles are more than law; it covers the total way of life that includes faith and practices, personal behavior, legal and social transactions, for a total way of life. In short, *Shari'ah* governs all forms of practical actions, comprising *ibadat* (the law pertaining to devotional matters) and *muamalat* (the law pertaining to activity in the political, economic and social spheres). The *Qur'an* explains the completeness of *Shari'ah* through the verse below (Yusuf Ali, 2008):

“Nothing have we omitted from the *Qur'an*, and they all shall be gathered to their Lord in the end”
(*Qur'an* 6:38)

The values as prevailed within the realm of *Shari'ah* are expressed in the details of its transaction together with its role in society. This demands the internalization of *Shari'ah* principles on Islamic financial transactions, in its form, spirit and substance. By so doing, it epitomized the objectives of *Shari'ah* in promoting economic and social justice. In order to fulfill the *Shari'ah* objective of promoting the welfare of society, IFIs are expected to consciously align their decisions and actions so that these are ‘socially responsible’ (Ab Aziz, 2013).

The growth in Islamic finance initially coincided with the current account surpluses of oil-exporting Islamic countries. But its continued growth in the face of eroding oil revenues reflects the influence of other factors, such as the desire for sociopolitical and economic systems based on Islamic principles and a stronger Islamic identity. In addition, the introduction of broad macroeconomic and structural reforms - in financial systems, the liberalization of capital movements, privatization, and the global integration of financial markets - have paved the way for the expansion of Islamic finance.

Islamic financial system was earlier regarded as an interest-free institution. However, this does not provide a true picture of the system as a whole. Undoubtedly, prohibiting the receipt and payment of interest is the nucleus of the system, but it is supported by other principles of Islamic doctrine advocating risk sharing, individuals’ rights and duties, property rights, and the sanctity of contracts. Similarly, the Islamic financial system is not limited to banking but covers capital formation, capital markets, and all types of financial intermediation.

The philosophical foundation of an Islamic financial system goes beyond the interaction of factors of production and economic behavior. Whereas the conventional financial system focuses primarily on the economic and financial aspects of transactions, the Islamic system places equal emphasis on the ethical, moral, social, and religious dimensions, to enhance equality and fairness for the good of society as a whole. The system can be fully appreciated only in the context of Islam’s teachings on the work ethic, wealth distribution, social and economic justice, and the role of the state.

3.2 Pyramid of *Maslahah*

Shari'ah can be interpreted to mean ‘the way’ or ‘a clear path to be followed’ (*Qur'an* 45:18). The *Shari'ah* in all of its parts aims at securing a benefit to the mankind and protecting them against harm and evil. This suggested that the fundamental value and objective of *shari'ah* is the realization of the *maslahah*, or public interest. It is important to highlight that *maslahah* sometimes has the same connotations as *maqasid*, and at times scholars have used the two terms interchangeably. Many scholars have agreed that the ultimate objective of *maqasid shari'ah* is to serve the interests of all human beings and to save them from harm both in this world and the hereafter.

Maqasid shari'ah reflects the holistic view of Islam, which has to be looked at as a whole. It is considered to be the cornerstone or the guiding principle of Islamic finance. *Maqasid shari'ah* highlights rationales, purposes and common good in the Islamic rulings and stresses their importance. Others opined that *maqasid shari'ah* is surrounding on the issue of preservation and promotion of human welfare. *Maqasid shari'ah* calls for establishment of justice, elimination of unfairness and alleviation of privation. It endorses relationship and mutual support within the family and community in general (Dusuki, 2009; Dusuki & Abozaid, 2007; Dusuki & Bouheraoua, 2011). Applying the principle and tenets of *maqasid shari'ah* in Islamic finance areas will ensure

the social and economic welfare will be promoted and safeguarded.

Maqasid shari'ah included the wisdom behind rulings such as 'enhancing social welfare', which is one of the wisdom behind charity, and behind fasting. *Maqasid* is also good ends that the laws aim to achieve by blocking, or opening, certain means (Ab Aziz, 2013). Accordingly, Lahsasna (2013) conclude that *maqasid shari'ah* is the relationship between the objectives and the means. These two are strongly related in the theory of *maqasid shari'ah* where the means represents the way to realize the objectives.

Islamic finance and banking can generally be categorized under *maqasid khassah*, the specific objectives. Nevertheless, the general objectives (*maqasid 'ammah*) are also very relevant and directly related as the aim of Islamic finance and banking includes preserving the wealth of society.

Maslahah has always been used, as a juristic device, to promote public benefit and prevent social evils and corruption. Al-Ghazali, in his concept of *maslahah*, describes it as 'the preservation of the ends of the *Shari'ah*', that is, the preservation of its objectives. Essentially, the fundamental meaning of *maslahah* lies in the all-encompassing universal objectives such as the protection of faith, life, posterity, intellect and wealth, and do not solely refer to the mere 'human goals' as many have thus defined it (Al-Ghazali, 1973). *Maslahah* concept is very relative to the moral economy because it seeks to establish justice, eliminate prejudice and alleviate hardship, cooperation and mutual support within the society, realization of public interest, public benefits and prevent social evils or corruption, securing the benefit and repelling harm (Dusuki, 2010).

Ibn Qayyim considers the concept of *Istislah* (public interest) in his economic point of view. This refers to enactment of law where there is no *shari'ah* rule, guided by public interest. It must be in accordance with the spirit and objectives of *shari'ah*; it should be logical and rational; and it should be adopted to remove some general hardship. He summarized his juridical methodology that is based on wisdom and people's welfare (Auda, 2008).

The pyramid of *maslahah* in figure 1 acts as an ethical filter mechanism, exemplifying three levels of judgment that demonstrate their different degrees of importance. It is important to note that the preservation of the three categories in their order of importance is vital for the pyramid to work. Also, all three levels are interrelated and mutually dependent.

The essential elements (*daruriyyah*) are at the bottom level as they deal with the preservation and protection of essential needs, and must consequently look out for the interests of the public and everyone involved. Thus, IFIs have a religious, moral and social responsibility to avoid engaging in any business activities which may prove detrimental to society. On the second level, are the complementary (*hajiyyah*), which are necessary in order to remove difficulties, but whose absence does not threaten the normal order of life. IFIs, after fulfilling the needs of the first level should then further extend their responsibilities, as exemplified in the second category. Finally, at the highest level of the pyramid are the embellishments (*tahsiniyyah*) which aim to perfect the conditions of life. In this category, it is inferred that Islamic firms have the responsibility to engage in activities that lead to improvements of public life conditions.

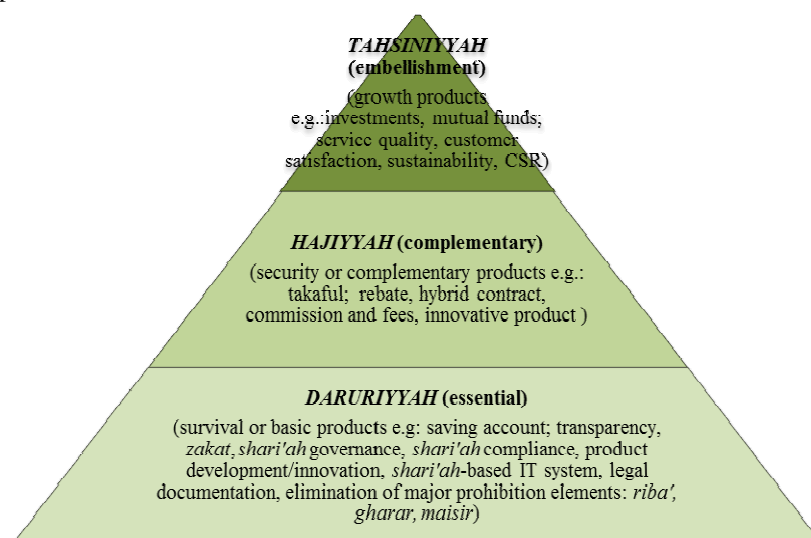


Figure 1: The pyramid of *maslahah* and Islamic Finance and banking

3.3 Pyramid of Maslahah and Social and Economic Welfare

Maqasid shari'ah require IFIs to comply with the standards of virtue and moral consciousness that have been advocated by the *Shari'ah* (Dusuki & Bouheraoua, 2011), which expects a balance, upheld by firms, in relation to the rights and responsibilities of the individual and of society (Chapra, 1992). As such, the many prohibitions established by the *shari'ah* should be treated with the aim of providing a level playing field in order to protect the interests of everyone involved as well as create the harmonious society that has been envisioned by the *maqasid shari'ah*. One could argue that the *maqasid shari'ah* provides, especially for IFIs, a framework for decision-making and a means to adapt to change. Furthermore, they act as guidelines for moral judgment (Dusuki & Bouheraoua, 2011).

Social welfare responsibilities and religious commitments to achieve the Islamic economic objectives, including social justice, equitable distribution of income and wealth and promoting economic development (Dusuki, 2008) must be upheld at all times. The values become the guidance of Islamic finance collectively. The values as prevailed within the ambit of *shari'ah* are expressed not only in the minutiae of its transaction but also in the breath of its role in society (Dusuki, 2008).

Warde (2001) mentions a number of socioeconomic objectives to be endorsed by IFIs. These are conventionally recognised objectives assigned to state banks and development agencies, hence attributed to IFIs as they are called upon to play a role in socioeconomic development. Among the objectives are fulfilment of broad socioeconomic benefits, focus on promising economic sectors, job creation and stimulation of entrepreneurship, maintenance and dispensation of social justice, establishment of equity and fairness, alleviation of poverty and promotion of regional distribution of investments.

At an institutional level, central banks would have the added responsibility of overseeing that IFIs do not cause wealth and power to be concentrated in the hands of a few. Commercial banks on their part are expected to act as universal banks, being profit geared as well as catering for societal needs. Islamic commercial banks are exhorted to attribute public funds 'to serve the common interest and no individual gain' (Lewis and Algaoud, 2001: 95).

3.4 Islamic Banks as Agents for Social and Economic Growth

Islamic banks use their depositors' money to finance activities that enable them to increase their fund in the most productive manner. Islamic banks are also required to evaluate projects, manage risk, monitor businesses, and facilitate transactions as these are essential for technological innovation and economic growth. However, their investment ability is restricted based on the *Shari'ah* guidelines, which partly will need to ensure the quality of balance sheet is good. In the process of transforming saving into investments, IFIs are different from conventional leader insofar as they must take into account social and development factors. In that respect, Islamic banks are expected to play the role once played by state banks and development agencies. Those functions include board social-economic benefits, job creation and focus on promising economic sectors, promotion and stimulation of entrepreneurship, promotion of social justice and equality and the alleviation of poverty, through the establishment of *zakat* fund, for the collection and distribution of funds to the poor, and the provision of benevolent loans (*Qardul Hasan*) to deserving individuals and regional distribution of investment (Warde, 2001).

Islamic banks play a valuable and integral part in the development of the national economy. By focusing on sustainable economic wealth, Islamic Banks can economically empower employees, shareholders and business partners, and can also contribute to the sustainability of state treasuries and a diverse spectrum of the important social development and to increase the shareholder's and entrepreneur's wealth. The economic contribution of Islamic banks can be seen by looking at the contribution to general economic development and benefit to customer and society. The Islamic banks recognize and accept the responsibility to contribute (via *zakat*) to the broader socioeconomic goals of poverty relief, improved health, better education and general social development especially in poor communities. The benefits of Islamic bank involvement include transferring technology, expanding financial services and providing capital in the countries in which Islamic banks operate. These benefits support growth and development. Furthermore, Islamic banks should contribute to the economy by providing affordable, effective banking and financial services to diverse individuals and organisations, contributing income to the government in the form of taxes and promoting economic stability and convenience in local communities through extensive branch network.

The first modern Islamic bank that catered for social demands of the local community was established in Egypt in 1963, implementing the idea of Islamic economy through MitGhamr Saving Bank. Although this bank survived for only two years, the idea of having Islamic Banking continued to live with the establishment of

Basser Social bank in 1971. The main objectives of these banks were to fulfill the social demand of the local people to alleviate poverty and to promote socioeconomic justice (Mayer, 1985) through products such as interest-free loans, educational scholarship and micro-credits for the poor and needy (Ariff, 1988; Iqbal and Molyneux, 2005; Mayer, 1985; Warde, 2010; Zaher and Hassan, 2001).

Concurrent with the establishment of MitGhamr in Egypt, Malaysia in 1963 established the first pilgrimage or Hajj fund named Tabung Haji to assist Muslim communities in this country to accumulate sufficient funds needed to perform their pilgrimage using saving facilities which comply to the *Shari'ah* principles. Tabung Haji continues operating the present day with lot of improvements and diverse operational activities, proving that Islamic banking is needed as it can sustain in the increasingly competitive financial market (Securities Commissions Malaysia, 2009). In a nutshell, these Islamic financial institutions represent the implementation of social banking or social financial institutions to facilitate the specific needs of Muslim communities.

A study by Haron and Hisham (2003) on the fulfilment of socioeconomic objectives by two Malaysian financial institutions, Bank Kerjasama Rakyat Malaysian and Bank Islam Malaysia Berhad, found that the socioeconomic development aspect of the institutions was lacking. The banks' socioeconomic performance was measured in terms of the proportion of *Qardul Hassan* dispensed, the distribution of their financing by economic sector, their *zakat* contribution, and the overdrafts they provide and activities they support to preserve Islamic culture. The authors attributed the observed down-play in the socioeconomic objectives of the banks on the fact that they are operating in a mixed economic-conventional banking systems environment, where their survival rests on how successfully they compete with their mainstream counterparts. As Islamic banking is considered green, their activities had to be 'commercial as opposed to predominantly socioeconomic'. It would therefore be expected that social welfare oriented activities of Islamic banks will increase as these institutions become more established.

4. The Case: Bank Islam Malaysia Berhad

4.1 Introduction

The increase in Muslim populations and awareness of Islamic values has led to greater demand for interest-free products that is incompliance of Islamic teachings. This lead to the establishment of Bank Islam Malaysia Berhad (Bank Islam), the first Islamic bank in Malaysia which commenced operations on 1st July 1983 after the enactment of the Islamic Bank Act (IBA) in the same year. Tengku Razaleigh Hamzah, the then Finance Minister described the Islamic bank as the first step in the government's efforts to instill Islamic values into the country's economic and financial systems as a replacement for the current western base economic system. Bank Islam started its operation with a paid up capital of RM100 million and an authorized capital of RM500 million. The bank was listed on the main Board of the Bursa Malaysia on 17th January 1990. To link the institutions and the instruments, the Islamic Interbank Money Market was introduced on 4th January 1994 (Securities Commission Malaysia, 2009).

Bank Islam celebrated its 30th anniversary in year 2012, signifying the enduring quality and excellence of Malaysia's *shariah*-based banking institution. Bank Islam has proved to be a viable banking institution with its activities expanding rapidly throughout the country with a network of 127 branches and more than 1,000 self-service terminals. The Bank has also expanded both in size and customer base, culminating in about 4,000 strong workforces serving the ever-growing five million customers. In terms of products, services and business solutions, the bank offers a comprehensive list of more than 70 sophisticated and innovative banking products and services to cater the fast-changing financial needs of customers from all categories including those related to micro financing, wealth management, capital market, treasury and structured products. Various Islamic concepts such as *Mudarabah*, *Musharakah*, *Murabahah*, *Bay' Bithaman Ajil* (*Bay' Muajjal*), *Ijarah*, *Qardhul Hasan*, *Istinsa'* and *Ijarah Thumma Al-Bay'* were used in order to ensure their products comply with *shari'ah* principles and tenets. Bank Islam shareholders include BIMB Holdings Bhd (51%), Dubai Banking Group (30.5%) and Lembaga Tabung Haji (18.5%) (Bank Islam, 2012).

As the pioneer Islamic bank in the country, Bank Islam plays a major role in promoting the expansion of Malaysia's brand of Islamic finance into other markets, especially in the region. Thus, the bank must ensure its operation at all times adhere and comply with *shari'ah*. The study focuses on the bank's performance and activities for the period of three years (2010 to 2012) in promoting social and economic welfare. As outlined by pyramid of *maslahah*, achieving the social and economic justice is very important for IFIs.

4.2 Economic Performance

Economic performance includes an organization assessment of its success which related to its assets, liabilities and overall market strength. Table 1 shows BankIslam total assets, financing, deposit, revenue and profit after zakat and tax over the period of 2010 to 2012. These periods were selected as in 2010 Bank Islam opted to

Table 1: Bank Islam Total Asset, Total Deposit and Total Financing from 2010 to 2012

| (MYR Million) | 2012 | 2011 | 2010 | Growth over 3-years |
|--------------------------|-----------|-----------|-----------|---------------------|
| Total Assets | 37,451 | 32,227 | 30,398 | 23.2% |
| Total Deposit | 32,583 | 28,305 | 26,888 | 21.2% |
| Total Financing | 19,509 | 14,160 | 11,857 | 64.5% |
| Total Revenue | 1,987,431 | 1,656,204 | 2,177,099 | |
| Profit after zakat & tax | 430,785 | 376,333 | 410,254 | |

Over the period of three years, total assets and deposits of the bank has increased by 23.2% and 21.2% respectively. Financing shows a remarkable increment from MYR11,857 million to MYR19,509 million. According to Ji-Ling and Ching (2012), Bank Islam is the third largest commercial Islamic bank in Malaysia, fifth in terms of financing and second in deposits.

Total revenue and profit after zakat and tax are important in helping the society and economy development of the nation. These figures proven to be on the rising state. However, since Bank Islam change its financial year-end in 2010, year-on-year comparison may have less significance.

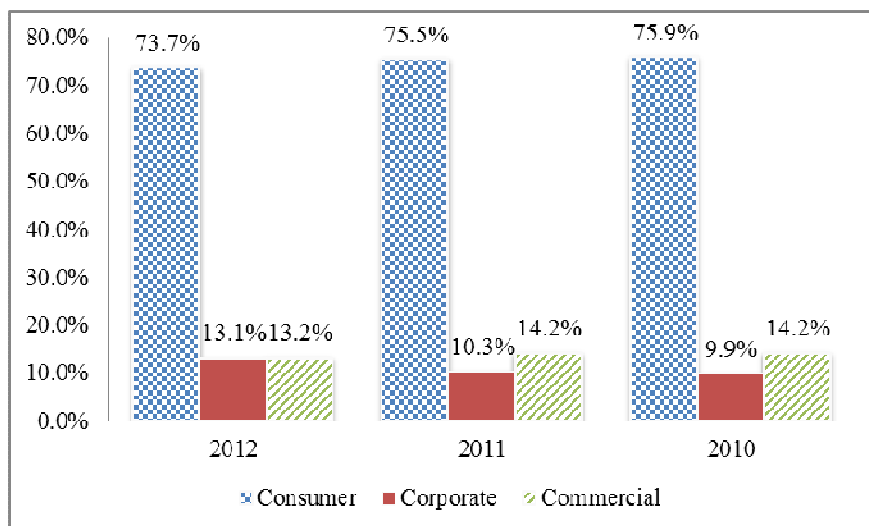


Figure 2: Financing by segment of Bank Islam's customer

Figure 2 show that Bank Islam categorised its customer into three segments. In the three years period, consumer segment seem to be steady while corporate segment improved and commercial segment reduce slightly. This is interrelated with the total financing as amount increases, the customer segment will tend to change.

While the bank commands notable market shares in the Islamic banking sphere, its market position and franchise are still limited in the overall industry compared to the universal-banking groups.

4.3 Social Contribution and Activities

Social welfare includes those activities that increase utility of the society especially the unfortunate. Thus, we selected zakat and other charitable-like activities that contributed to the definition of social welfare.

Table 2: Zakat Contribution and Activities of Bank Islam for year 2010 to 2012

| | 2010 | 2011 | 2012 |
|--|---|---|--|
| Contribution | MYR13,398 million | MYR7,817 million | MYR9,251 million |
| Zakat Fund usage and activities | <ul style="list-style-type: none"> • MYR8.9 million – gave to Islamic Council and Zakat authorities nationwide. • MYR1 million – used in building and refurbishing 30 houses for poor. • MYR10,000 - support of youth programme. • MYR8.9 million – contributed to variety projects and events to help the unfortunate and needy. • Created a special fund for education institutions to provide financial assistance to underprivileged students and low income families. | <ul style="list-style-type: none"> • MYR11.6 million – presented to the unfortunate Muslim society, Zakat authorities, mosques, Islamic institutions and non-governmental organisations. • MYR3600,000 – given to five public universities in the country • Allocated amount to schools and other learning institutions, non-governmental organisations and various mosques. | <ul style="list-style-type: none"> • MYR5 million – allocated in effort to reduce poverty, improve education, welfare support and unity programmes. • Organised Zakat related programmes nationwide • Contributed to several mosques, children care group, less fortunates. • MYR200,000 – given to 1,139 individuals and 12 welfare organisations nationwide. |

Zakat is a unique instrument for poverty alleviation as wealth is transferred from well-off people to worse-off people (Hassan, 2010). Islam identifies zakat as one of the five pillars and the contribution to zakat means sharing the wealth with the less fortunate. Looking at table 2, Bank Islam obviously contributed significant amount towards the society well-being. The amount in 2010 is higher due to the fact the bank is changing its financial year-end and therefore has 18 months under consideration. The activities highlighted indicate that the bank is utilizing the zakat fund in manner approved by the *shari'ah* towards promoting the society welfare.

In assuring the bank's does take social and economic welfare into consideration, table 3 below highlights the other charitable-like activities by the bank throughout year 2010 to 2012.

Table 3: Bank Islam's Activities for year 2010 to 2012 in Promoting Social and Economic Welfare

| Activities | 2010 | 2011 | 2012 |
|--|---|--|--|
| Higher education 'Social responsibility' | <ul style="list-style-type: none"> • Partnering with public university on a Platinum MasterCard whereby 0.3% of purchase using the card is donated to a fund. • Collaborated with university, General Hospital and Health Office in organising a Blood Donation Drive and Free Health Check. | <ul style="list-style-type: none"> • Involved in the Fund to Change the Destiny of the Nation's Youth that provide scholarships for young people who unable to pursue their studies in Universiti Teknologi MARA. | <ul style="list-style-type: none"> • Launched the Debit Card-i (UNIDEBIT) for Universiti Malaysia Kelantan. |
| Schools 'PINTAR (SMART) Programme' | <ul style="list-style-type: none"> • Adopted 13 schools to promote intelligence, nurtures talent, advocates responsibility, enhance awareness and knowledge on Islamic banking. • Launched Innovation and Creativity programmes to promote and enhance exploratory learning and creative thinking. • Organised motivational programmes for students and teachers to encourage better performance in learning and teaching methods. • Collaborated with media in a | <ul style="list-style-type: none"> • Participated in the 'Zero to Hero' initiative where five schools nationwide were adopted in building competencies in English, developing self-confidence and enriching the learning experience among students. | <ul style="list-style-type: none"> • Continue to support the initiatives of the PINTAR programme which aims to promote academic and non-academic excellence especially among underserved students. • Helped special children with dyslexia, ADHD and slow learning disability to master the skills of reading and writing. • Actively contributing to the J-QAF initiative that seeks to provide schools with better learning environment, by providing books which enhance Arabic knowledge. |

| | | | |
|--|--|--|--|
| | recycling awareness programme to provide knowledge on green issues, creating eco-manifesto and recycling ideas. | | |
| Donation (<i>Amal Jariah</i>) Event | <ul style="list-style-type: none"> Organised charity events with Children homes in Perak. Rendered financial assistance to flood victims in Kedah. | <ul style="list-style-type: none"> Help several single mothers and the needy throughout Malaysia to get medication, food and other basic needs. | <ul style="list-style-type: none"> Contributed to the the house for the blind in Pahang. Distributed essential items to the homeless people living on the streets of Kuala Lumpur. Donated to Tabung Haji in offering basic needs of pilgrims. Contributed nine hearses and multi-purpose vans to various mosques and charity organisations nationwide. |
| Enriching Society ' <i>Housing Aid Project</i> ' | <ul style="list-style-type: none"> Helped a handicapped lady, an orphan and countless senior citizens who are infirm. Formed a community in building 12 new homes in Kedah to shelter and protect abandoned old folks. | <ul style="list-style-type: none"> Provided shelter for the poor and destitute. Empowered the community by providing opportunities for local contractors, materials suppliers and local skilled and semi-skilled villagers. Replaced 12 old houses of senior citizens, built 20 new houses and upgraded 10 other houses in Kedah. Extended the project in Sabah and Sarawak. | Continuous effort and dedication to improve the living conditions for marginalized Malaysians via ongoing Bank Islam <i>Housing Aid Project</i> in the state of Negeri Sembilan. |
| Sustaining the Planet (environment) | <ul style="list-style-type: none"> Undertaken various initiatives through collective efforts of its employees and resources, directing sustainable efforts in making the workplace environmentally-friendly. Addressing in-house environmental concerns, the Bank engage in sustainable processes even while conducting business undertakings such as reducing energy, water and paper consumption to motivate employees and spur further cost and energy savings. | <ul style="list-style-type: none"> Supported a beach clean-up campaign in the state of Pahang which created the spirit of <i>Ukhuwah</i> (harmony and brotherhood) and care for the environment. Conducted the "Mangrove Tree Planting" exercise at the forest reserve in Selangor. | <ul style="list-style-type: none"> Raised public awareness on the importance of environmental preservation with more than 450 volunteers involved in beach cleaning activities. Contributed in Aquatic Awareness programme in raising awareness on the importance of marine life to students and public. The bank's staff participated in the underwater clean-up activities which took place under the sea surrounding the state of Terengganu. Involved in tree-replanting programme at Taman Rimba Riang, Selangor. |
| <i>Ramadhan</i> (Fasting) Programme | <ul style="list-style-type: none"> Break fasting sessions were held nationwide. Sponsored television charity focused programmes. | <ul style="list-style-type: none"> Break fasting sessions with the underprivileged including orphans, senior citizens, single mothers and Muslim convert nationwide. Distributed packed food to the media and press staff in Kuala Lumpur and Selangor. | <ul style="list-style-type: none"> Collaborated with media in organising a break fast programme in Kuala Lumpur involving 1,000 residents. Donated money, dates, rice and clothing to the less fortunate. Break fasting sessions for the underprivileged nationwide. |

Table 3 above is self explanatory and prove that the bank have in such way contributed to the promotion of social and economic welfare. Focusing not only on the younger generation via education, the bank also takes the

lead by doing good deed for the unfortunate, single mother, old folks, homeless people and orphans. Not to forget, environmental is also one of the segments that the bank looks upon. Clear enough that the bank may be regarded as Islamic social banking that take into consideration of the profit, society and environment. Furthermore, Bank Islam also uphold to the principles of *shari'ah*. The economic performance, zakat and other charitable-like activities conducted are legal proof that Bank Islam is promoting towards a balance economic and social development goals.

Moreover, all these information are available through their annual report and corporate book via the bank's website which evidence that the bank promotes the value of transparency and accountability. All these values are promoted and necessary in building the pure Islamic financial system, which is based on the premise of *maqasid shari'ah*.

As Malaysia aspires to become an international Islamic hub, Bank Islam in its corporate book assures that the bank will continue to lead the way in driving Islamic economy forward. Bank Islam has become a source of reference for *Shari'ah*-based banking and finance, and this has been instrumental in the rapid development of the Islamic banking and financial industry in the country.

5. Conclusion

Islamic finance as part of an Islamic economic system has an inherent orientation. The overall goal of this system is to realize the *maqasid shari'ah*, which at the end enables growth and justice (Siddiqi, 2004). This implies that Islamic finance will need to fulfill both, the legal and social requirements.

Ibn Khaldun stated that the development or decline of economy or society is depending on the interaction of moral, economic, political and historical factors over a long period of time. The sovereign, beliefs and rules of behaviour or the *shari'ah*, people, wealth or stock of resources, development and justice, move in a circular and interdependent manner, each influencing the others and in turn being influence. Islamic finance being part of the financial system alongside the conventional is also affected and impacted by these factors.

Social welfare responsibilities and religious commitments to achieve the Islamic economic objectives, including social justice, equitable distribution of income and wealth and promoting economic development (Dusuki, 2008) must be uphold at all times. The values become the guidance of Islamic finance collectively as it prevailed within the ambit of *shari'ah*.

Social aspects of financial institutions can be assessed by examining their involvement in socially responsible activities. From a product perspective, the social role can be determined by the market segments and the needs served (Ahmed, 2011). Welfare can be enhanced by promoting the three level of *maslahah - daruriyyah, hajiyyah* and *tahsiniyyah*. As shown and discuss earlier, Bank Islam prove to be one of the Islamic bank that does contribute to the social and economic welfare of the country. The findings above are consistent with the definition of social banking as discussed earlier.

Although previous researchers concluded that the existing Islamic banks in Malaysia have not functioning as a social banking (Asutay, 2007; Dusuki, 2007; Hanifa and Hudaib, 2007; Hassan and Latif, 2009; Sairally, 2006), they acknowledged that the Islamic banks does in some manner contributed to the social and economic welfare. It is arguable that the social contributions should be given through a more systematic and organized medium by assisting community and socioeconomic development at macro level rather than individual development per se that only focuses at the micro level.

Whatever perception given, we strongly believe that Islamic financial system will enable to cater for the social and economic welfare as promulgated by the pyramid of *maslahah*. The IFIs will need to learn and on-going effort should be put forward to sustain and be competitive with their conventional counterparts.

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