

Offshore bankers' perception on Islamic banking niche for Labuan : an analysis

Abstract

Purpose – The purpose of this paper is to detail the findings of a study to determine the viability of Islamic banking as a niche for the Labuan International Offshore Financial Center (IOFC). Labuan was declared an IOFC by the Malaysian Government in 1990, with the goal of developing it as a financial “supermarket” offering a wide range of offshore financial products specializing in Islamic finance.

Design/methodology/approach – The paper employs the mail survey method to ensure the anonymity of the respondents and the whole population of banks are used, which enables the researchers to ignore the problems of bias in the sampling. Data collected from the survey are analyzed using descriptive statistics, mean, standard deviation, and frequency counts. **Findings** – The results of the survey indicate that Labuan offshore bankers do not have a clear notion of Islamic banking principles and practices. The results also show that most of the offshore banks do not have officers and staff who are conversant with Islamic banking. Nevertheless, conventional offshore banks are willing to train their officers in Islamic banking skills and participate in future Islamic deals. The findings also indicate that Islamic banking is a viable niche for the Labuan IOFC.

However, the results also show that Labuan does not have competitive advantages over Bahrain and London, currently the leading Islamic finance centers in the world.

Research limitations/implications – There are three major limitations of this paper.

These limitations are further explained in the conclusion's part. **Practical implications** – There are three major implications of these findings. First, the authorities ought to enhance the knowledge and expertise of the conventional offshore bankers by facilitating training in Islamic banking skills. Acquisition of such knowledge and skills would encourage them to participate in future Islamic banking deals. Second, the industry and the authorities responsible for the IOFC have to be both innovative and creative. In order to convince conventional offshore bankers that Islamic banking is a

viable alternative to conventional banking the products and services offered must be seen as value added. A creative tax regime should have a substantial impact in terms of increased profit margin or reduced cost on the part of the offshore banks. Third, improving the physical infrastructure and overcoming the geographical location disadvantage of Labuan should become the priority of the authorities overseeing the development of Labuan as an IOFC. Originality/value – The paper provides fresh results on the viability of Islamic banking operations in Labuan IOFC.