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The Future of Islamic Banking in the Philippines: Finding a Niche

Kenneth Michael A. De Castro
De La Salle University, Manila

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The Future of Islamic Banking in the Philippines: Finding a Niche

Written by:

Mr. Kenneth Michael A. De Castro
Department of Accountancy
Ramon V. del Rosario College of Business
De La Salle University
Email: kenneth.decastro@dlsu.edu.ph

Synopsis

Among the United Nations' Sustainable Development Goals are economic growth and reducing inequality. Sustainable economic growth can drive progress, create decent jobs for all, and improve living standards, whereas reducing inequality ensures that no one is left behind in all aspects of human life. Bridging sustainable economic growth and reduction of social inequality is financial inclusion. As individuals and businesses have access to useful and affordable financial products and services that meet their needs, it helps them manage their current consumption, invest for the future, and mitigate their exposure to various financial and economic risks.

In the case of the Philippines, achieving financial inclusion for all is still a long way to go. According to the 2019 Financial Inclusion Survey by the Bangko Sentral ng Pilipinas, 71% of the total Filipino adult population remains unbanked and have their financial needs underserved. These people have limited access to formal sources of capital to support their financial and economic goals. More specifically, the Bangsamoro Autonomous Region in Muslim Mindanao (BARMM), one of the 17 administrative regions in the country, remains to be the least financially-inclusive region and the most impoverished, with a poverty incidence rate of 37% (National Economic and Development Authority, 2021).

Hence, in an effort to strengthen its mandate of sustainable financial inclusion, especially in the most impoverished areas such as BARMM, former President Rodrigo Roa Duterte signed Republic Act No. 11439 which seeks to usher the creation of Islamic banks and Islamic banking units within conventional banks to introduce an alternative financial system compliant with Shariah or the Islamic law. With this legislation, Islamic banking can augment country's existing financial system by providing additional readily-accessible, cheaper, and sustainable financing for Muslim Filipinos and for all Filipinos, as a whole.

1. Introduction

According to the World Bank, financial inclusion means that individuals and businesses have access to useful and affordable financial products and services that meet their needs (e.g. transactions, payments, savings, credit, and insurance) and are delivered in a responsible and sustainable way. As such, financial inclusion can help reduce poverty and inequality by helping individuals invest for the future, smooth consumption, and manage financial risk (Demirgüç-Kunt, Klapper, & Singer, 2017). With financial inclusion, critical areas for a progressive nation such as education and business are also affected which can help enhance productivity and long-term economic growth (Demirgüç-Kunt et. al., 2017).

However, the Bangsamoro Autonomous Region in Muslim Mindanao (BARMM) remains the financially-inclusive region in the Philippines according to the 2019 Report on the State of Financial Inclusion in the Philippines by the BSP. Demographically, only 0.1 banks per 10,000 adults, and 0.2 automated teller machines (ATMs) per 10,000 adults are serving the BARMM. In terms of area, only 0.3 banks per 100 square kilometer, and 0.8 ATMs per 100 square kilometer are serving the region.

Hence, in an effort to strengthen financial inclusion by providing additional sources of financing our Muslim brothers and sisters, Republic Act No. 11439 was enacted which will allow the creation of Islamic banks and Islamic banking units in conventional banks. Islamic banking is envisioned to complement the existing conventional banking system, making capital more affordable and accessible to everyone.

But what exactly is Islamic banking? How does it differ from the conventional banking services being offered in the country? How would it make a significant impact in the country's financial system? And what is in store for the Philippine Islamic banking industry in the future?

2. Literature Review

2.1. Theoretical framework

The diffusion of innovation (DOI) theory is used to explain the adoption of Islamic banking in the Philippines. The DOI theory developed by E.M. Rogers in 1962 explains how, over time, an idea or product gains momentum and diffuses (or spreads) through a specific population or social system. It asserts that innovation diffusion is a general process not bound by type of innovation, by who the adopters are or by place or culture (Rogers, 2003). DOI theory has four important elements: innovation, communication channels, time, and social system. Firstly, innovation is an idea, practice of project that is perceived as new by an individual or other units of adoption (Rogers, 2003, p. 12). Innovation may have been invented a long time ago, but if individuals perceive it as new, then the innovation is new (Sahin, 2006). For example, the concept of Islamic banking is relatively new to the Philippines. Secondly, communication channels are processes in which participants create and share information with one another to reach a mutual understanding (Rogers, 2003). In order for Islamic banking to be adopted in the Philippines, there should be clear communication channels between religious leaders, the government, and the media, among others. Thirdly, the timing for the adoption of Islamic banking is appropriate given the state of financial inclusion in BARMM, where it consistently ranks at the bottom, as well due to increase in interest rates which may adversely affect businesses due to higher cost of capital. Lastly, social system is defined as a set of interrelated units engaged in joint problem-solving to accomplish a common goal (Rogers, 2003, p. 24). This includes the various stakeholders interested in the adoption of Islamic banking, such as the religious leaders, private investors, and the government. Rogers (2003) argued that change agents are needed for an innovation to be adopted, that uncertainty curtails the speed of innovation adoption, and that the adopters of innovation should be alerted of its benefits and dangers. Rogers (2003) further suggested that DOI theory perceived compatibility and complexity, which are vital for the adoption of an innovation. For the stakeholders to understand and share information regarding Islamic banking, seminars, conferences, and publications need to be undertaken by the BSP, the government, the religious leaders and public relation offices of private investors who may wish to venture into this relatively untapped market.

2.2. Islamic banking concept, principles, and products

Islamic banking "are those that are based in their objectives and operations on Quranic principles" (Warde, 2000). Unlike traditional or conventional banking, Islamic banking is based on the following principles:

(1)*Belief in divine guidance*. This is founded on the belief that the universe was created by Allah (swt)[1] and He created man on earth to fulfill certain objectives through obeying His commands. These commands are not restricted to worship and religious rituals but cover a substantial area of almost every aspect of life, including economic and financial transactions (Abdullah & Chee, 2010, p. 4). Unlike the conventional banking system, where it is secular, Islamic banking is linked to Shari'ah, or the Islamic law, which is founded on Islamic faith.

(2) *Non-collection of interest (riba)*, In Islam, riba or interest is permanently prohibited in all types of financial matters. Technically, it refers to any excess payment or compensation without due consideration (Usmani, 2002). It covers any return of money on money, whether the interest is fixed or floating, simple or compounded, and at whatever the rate (Abdullah & Chee, 2010, p. 45).

(3) *Investments should conform to Islam*. Money is to be invested in worthy causes (Abdullah & Chee, 2010, p. 4). Businesses should not be involved directly or indirectly in haram or prohibited activities such as alcoholic drinks, pork, gambling (maysir), pornography, those involving excessive or major uncertainty (gharar fahish) or any activities that are considered harmful or that could cause disruption to the welfare of the society (Bananuka, Katamba, Nalukenge, Kabuye, & Sendawula, 2019). It is similar to the concept of socially-responsible investing, which seeks to maximize financial return and social good (Abdullah &; Chee, 2010, p.4).

(4) Risk-sharing is encouraged. While the collection of interest is prohibited, Islamic banking promotes the sharing of risks in business dealings with customers. In such a case, the bank does not act as a lender, rather, it acts as an investor to the project. As a result, Islamic banks does not only examine the creditworthiness of the customer, but they also assess the financial viability of the project (Abdullah & Chee, 2010).

(5)Financing is based on real assets. While conventional banking activities can grow several steps ahead of the real economy, which can lead to speculation and unjustifiable price inflation, financing extended through Islamic products can only expand in step with rise of the real economy (Abdullah & Chee, 2010). Hence, financing is based on tangible assets with intrinsic values tied to their utility to produce goods and services such as real estate, commodities, and infrastructure.

Common Islamic banking products around the world include *wadiah* (deposit account), *takaful* (Islamic insurance with joint risk sharing), and *sukuk* (Islamic bonds).

2.3. History of Islamic Banking in the Philippines

Islam had its roots planted in the Philippines when Makhdum Karim reached the Sulu Archipelago and established the religion in the country through trade (Hernandez, 2016). Since then, the Arab traders and Muslim merchants from present-day Malaysia and Indonesia quickly converted the indigenous population to Islam, building the Philippines' first mosque in the town of Simunul, Tawi-tawi in the mid-14th century (Koerner, 2005). However, modern-day Islamic banking in the country started in the early 1970s as the Philippine government addressed the problem of peace and order in the country, more specifically in the Muslim areas in Mindanao, Southern Philippines (Hadji Latif, 2020). In 1973, President Ferdinand Marcos, by virtue of Presidential Decree No. 264, established the first Islamic bank in the Philippines, the Philippine Amanah Bank (PAB) with an initial capitalization of 100 million pesos (Bunye, 2010). PAB originally provided financial services to the provinces in Mindanao with significant Muslim population such as Basilan, Lanao del Sur, Cotabato, Sulu, and Tawi-tawi, to name a few. PAB was established with a mandate to implement Islamic banking principles such as profit-loss sharing, and interest-free modes in all forms of business transactions.

Unfortunately, the bank failed to take flight in its earlier years because of external and internal constraints such as lack of funding, lack of public awareness towards Islamic banking and its products, lack of marketing strategies to enhance public awareness, and absence of a concrete regulatory framework (Iqbal and Mylenko, 2016).

In 1990, by virtue of Republic Act No. 6848, the bank was re-chartered and recapitalized with an initial capitalization of 1 billion pesos, and was subsequently renamed as the Al-Amanah Islamic Investment Bank of the Philippines (AAIIBP). AAIIBP sought to expand the presence of Islamic banking in the country and enhance its operations to serve the Muslim community through banking, financing, and investing in commercial, industrial, and agricultural activities based on Islamic banking principles. But again, unfortunately, AAIIBP has not performed well in years succeeding to its reorganization, particularly due to huge operating expenses and non-performing loans (Hadji Latif, 2020). In 2008, the Bangko Sentral ng Pilipinas (BSP) had given its final approval for the Development Bank of the Philippines (DBP) to take control of AAIIBP and allow it to operate as a commercial bank to make it profitable with the intention to revert it back to an Islamic bank five years after the sale (dela Peña, 2008). But as AAIIBP's unsatisfactory performance continued and citing that it did not have the expertise in Islamic finance, in 2012, DBP received government approval to sell its stake to private entities (Asian Banking and Finance, 2012). However, as of this date, the sale is not yet realized.

According to the 2021 Annual Report of AAIIBP, the bank reported a loss of P86.1 million and P88.8 million in years 2020 and 2021, respectively (Al-Amanah Islamic Investment Bank of the Philippines, 2021).

2.4. The Global Islamic Banking Environment

Islamic finance traces its roots back to the 7th century, when Islam began its growth and when Arabia was at the center of economic crossroads of an active market in spices and precious metals.

Prophet Muhammad (pbuh)[2] himself was a merchant and a caravan trader before he became a messenger of Allah (swt) (Abdullah & Chee, 2010, p. 7). Khadija, Prophet Muhammad's (pbuh) first wife, was also a successful business woman in her own right (Andante Travels, n.d.).

However, modern-day Islamic finance only started in 1964, upon the establishment of Mit- Ghamr Savings Bank in Egypt, known to be as the first Islamic bank in the world. Since then, Islamic banks continued to proliferate throughout the 80s and 90s at Arab countries in the Middle East and Africa (Ijara CDC, n.d.).

In recent years, Islamic finance has firmly established itself as one of the most vibrant and yet often overlooked sectors in the global financial services industry. In 2020, the global market for Islamic finance continued its upward momentum recording a growth rate of 10.7% year-on-year, driven primarily by the strong performance of Islamic banking, as well as its capital market products. Specifically, Islamic banking recorded a 4.3% annual growth, with total assets of US$ 2.7 trillion, mostly coming from countries such as Saudi Arabia, Iran, Malaysia, and the Gulf region. Capital market products such as equities and debt instruments like sukuk or Islamic bonds recorded a 26.9% annual growth, while takaful or Islamic insurance recorded a 10% annual growth (Ismail, 2022).

As of 2020, 526 Islamic banking institutions operate across 72 countries. The Gulf Cooperation Council (GCC) countries remain as the top destination of Islamic finance assets, accounting for half of the market share. Middle East and South Asian countries come in second, with a market share of 25% (Ismail, 2022).

However, it is interesting to note that South-East Asia is an up-and-coming destination for Islamic finance, accounting for 20% of the market share (Ismail, 2022). While Malaysia and Indonesia, two of the predominantly-Muslim countries in the region, still dominate the playing field, it is hard to ignore the continuous growth of Islamic finance in the region which seeks to provide alternative financing to businesses.

2.5. Recent regulations about Islamic banking

On August 22, 2019, President Rodrigo Duterte signed Republic Act No. 11439 or "An Act Providing for the Regulation and Organization of Islamic Banks". In its declaration of policy, "the state recognizes the vital role of Islamic banking and finance in creating opportunities for greater financial inclusion especially for the underserved Muslim population…" According to the Act, the BSP, through its Monetary Board, "may authorize the establishment of Islamic banks, or may authorize conventional banks to engage in Islamic banking arrangements…through a designated Islamic banking unit within the bank. Provided that the bank shall have a system of segregating the transactions of the Islamic banking unit from its conventional banking business". Further, to ensure the Islamic bank's or the Islamic banking unit's compliance with Shari'ah principles, "it shall constitute a Shari'ah advisory council composed of persons who are qualified in Shari'ah or who have knowledge or experience in Shari'ah and in banking, finance, law or such other related discipline".

To support the implementation of the Act, the BSP issued various circulars and memoranda as follows:

a. BSP Circular No. 1069, series of 2019, *"Guidelines on the Establishment of Islamic Banks and Islamic Banking Units"*, which sets forth the following:

   (i) The BSP allows the establishment of domestic and foreign Islamic banks (IBs), and creation of Islamic banking units (IBUs) in the form of a division, department, office, or branch of a conventional bank;

   (ii) The stockholding limits prescribed for the establishment of a universal bank (UB) under Section 122 of the Manual of Regulation for Banks (MORB) shall also apply to an IB;

   (iii) The minimum capitalization requirements for a UB shall apply to an IB or an IBU. Moreover, IBs shall take the necessary steps to become publicly-listed companies.

   (iv) A Shari'ah governance framework to be implemented by the Shari'ah advisory council should be in place to ensure compliance with Islamic laws.

   (v) A list of services and products that can be introduced by the IB or an IBU was also enumerated in accordance with R.A. 11439.

b. BSP Circular No. 1070, series of 2019, *"Shari'ah Governance Framework for Islamic Banks (IB) and Islamic Banking Units (IBU)"*, which shall ensure effective Board of Directors (BOD) and management oversight over *Shari'ah* compliance, creation of an independent and effective *Shari'ah* advisory council, and establishment of an independent and effective compliance and independent audit functions. The compliance and audit functions may be outsourced during the first three years of Islamic banking business upon approval of the BOD and with prior notice to the BSP.

c. BSP Circular No. 1116, series of 2021, *"Guidelines on the Management of Liquidity Risk of Islamic Banks and Islamic Banking Units"*, which states that IBs and IBUs are expected to have written policies on liquidity risk management.

d. BSP Circular No. 1139, series of 2022, *"Guidelines for Reporting Islamic Banking and Finance Transactions/Arrangements"*, which states that the provisions of existing regulations under the MORB, as well as other standards of conduct prescribed by the BSP on conventional banks shall also apply to an IB and IBU of a conventional bank, unless otherwise expressly specified. Moreover, IBs and IBUs shall prepare their financial statements in accordance with the Philippine Financial Reporting Standards (PFRS) as provided under Section 172 of the MORB.

e. Memorandum No. M-2020-052, which clarifies the frequently-asked questions about Islamic Banking which include, among others, the core features of Islamic banking, its availability for Muslims and non-Muslims, and its key distinctions from conventional banking.

3. Analysis

3.1. Market analysis

According to the 2019 Financial Inclusion Survey by the BSP, the total adult population of the Philippines is estimated to be 72 million. This refers to the total population with ages 15 years old and above. In addition, the number of unbanked Filipino adults stood at 51.2 million in 2019, or representing 71% of total adult population. Among the reasons for the exclusion are due to lack of money (45% of the unbanked), lack for need of an account (27% of the unbanked), and lack of documentary requirements to open an account (26% of the unbanked).

Further, in a study made by international financial services company S&P Global, about 5 to 6 percent of the unbanked Filipino population is Islamic, residing in highly under-banked regions. This translates to roughly 3 million Muslim Filipinos that do not have access to a formal bank account, or 4 percent of the total adult population, and 50 percent of the Muslim population in Mindanao, according to the Philippine Statistics Authority. This can be the potential market that can be served by existing and future Islamic banks in the country.

3.2. Product analysis

In this section, we will analyze the products offered by AAIIBP, the only bank in the Philippines that caters to both conventional and Islamic banking.

In this regard, we will look into the 2021 Annual Financial Statements of the AAIIBP. As the financial statements of AAIIBP were prepared in accordance with the Philippine Financial Reporting Standards, the line items presented in its statement of financial position and statement of comprehensive income looks the same as that of a conventional bank, which is seen below:

AL-AMANAH ISLAMIC INVESTMENT BANK OF THE PHILIPPINES
(*A subsidiary of the Development Bank of the Philippines*)
STATEMENTS OF FINANCIAL POSITION
December 31, 2021 and 2020
(in Philippine Peso)

	Note	2021	2020
ASSETS			
Cash and cash equivalents	6	Pxx	Pxx
Financial assets at amortized cost	7	xx	xx
Receivables, net	8	xx	xx
Inventories	9	xx	xx
Other investments	10	xx	xx
Property, plant and equipment, net	11	xx	xx
Intangible assets, net	12	xx	xx
Other assets, net	13	xx	xx
TOTAL ASSETS		**Pxx**	**Pxx**

LIABILITIES AND EQUITY

	Note	2021	2020
LIABILITIES			
Deposit liabilities	14	Pxx	Pxx
Financial liabilities	15	xx	xx
Lease liability	16	xx	xx
Inter-agency payables	17	xx	xx
Provisions	18	xx	xx
Other payables	19	xx	xx
		xx	xx
EQUITY			
Share capital	20	xx	xx
Deficit		(xx)	(xx)
		xx	xx
TOTAL LIABILITIES AND EQUITY		**Pxx**	**Pxx**

AL-AMANAH ISLAMIC INVESTMENT BANK OF THE PHILIPPINES
(*A subsidiary of the Development Bank of the Philippines*)
STATEMENTS OF COMPREHENSIVE INCOME
December 31, 2021 and 2020
(in Philippine Peso)

	Note	2021	2020
INCOME			
Service and business income	21	Pxx	Pxx
Other non-operating income	22	xx	xx
		xx	xx
EXPENSES			
Personnel expenses	23.1	xx	xx
Maintenance and other operating expenses	23.2	xx	xx
Financial expenses	23.3	xx	xx
Non-cash expenses	23.4	xx	xx
		xx	xx
Net loss before tax		(xx)	(xx)
Provision for income tax		xx	xx
Net loss for the year		xx	xx
Other comprehensive income		xx	xx
TOTAL COMPREHENSIVE INCOME		**Pxx**	**Pxx**

However, looking deeper into the notes to the financial statements, we will scrutinize, in particular, three financial statement accounts: (1) its receivables, (2) its deposit liabilities, and (3) its service and business income.

3.2.1. Receivables

As of December 31, 2021, the receivables of AAIIBP are composed of the following: (1) from Islamic financing, which comprises 80% of the total gross receivables, (2) from conventional banking, which comprises 14% of the total, and (3) miscellaneous receivables, which comprises the remaining portion of the total. As majority of its receivables came from Islamic financing, it is important for us to know the nature of these items:

(a) *Al-Ijarah Muntahia Bittamleek* or a form of lease financing whereby the legal title of the leased asset passes at the end of the *Ijarah* (or lease term), provided that all *Ijarah* installments are settled. As a policy, the assets under the *Ijarah Muntahia Bittamleek* are initially recognized at cost and the unearned income or profit from the related financing is only recognized as income upon periodic payment of the customer (Hanif, 2016).

In conventional banking, this is in essence a finance lease receivable. However, unlike *Ijarah* contracts, finance lease receivable is recorded at the fair value of the leased asset (Hanif, 2016). In addition, under *Ijarah* contracts, rent is only charged when the asset is made available to the lessee for use, while conventional leasing interest is charged once the contract is signed, irrespective of whether the asset is actually available for use or not. Lastly, risks associated with *Ijarah* contracts are mitigated through *takaful* or Islamic insurance policies with joint risk-sharing, while risks associated with conventional lease financing is mitigated through conventional insurance, which is prohibited under Islamic law as it constitutes a major uncertainty (Hanif, 2016).

(b) *Al-Murabahah* or cost-plus financing in conventional finance, is an Islamic financing structure in which the seller and buyer agree to the cost and markup of an asset. As interest is generally prohibited under Islamic law, the markup is the income generated by the seller. As such, murabahah contracts are non-interest bearing and is an acceptable form of credit sale under the Islamic law (Young, 2020). This form of financing is used in lieu of the conventional consumer loans used when purchasing appliances, cars, or real estate. It can also be used in lieu of conventional short-term trade financing such as letters of credit used in importing goods (Young, 2020).

(c) *Al-Bai Bitthaman Ajil* or acquisition through a deferred payment sale is an Islamic financing structure where the Bank purchases the asset and subsequently sells it to the customer at an agreed price and allows the latter to settle the payment by installments within a specified period of time.

Again, as interest is generally prohibited under the Islamic law, the Bank earns profit from the markup charged to the customer (Al-Amanah Islamic Islamic Investment Bank of the Philippines, 2021).

(d) *Al-Qard Al-Hassan* is another form of non-interest bearing loan extended to a borrower by a lender on the basis of benevolence (*ihsan*). These loans are generally collateral-free and only requires the payment of the face value of the loan for a specified period of time.

These Islamic financing schemes maximizes the Bank's ability to provide cheap and accessible capital to consumers as it works in an interest-free regime, it prevents usury or the unreasonable charging of markup by the lender to the detriment of the borrower, and it allows eligible borrowers to be given benevolent loans, which is something conventional banks do not offer.

3.2.2. Deposit liabilities

As of December 31, 2021, AAIIBP's deposit liabilities came from (1) Islamic deposits, which comprise 30% of the Bank's total deposit liabilities, and (2) conventional deposits, which comprise 70% of the total. Conventional deposit products include checking accounts, savings accounts, and fixed deposit accounts. However, for Muslims, conventional deposit products are prohibited because it is interest-earning. Hence, AAIIBP offers deposit products which are compliant under the Islamic law: (1) *wadiah*, (2) *mudharabah*, and (3) *qard hassan* (Abdullah & Chee, 2010)

(a) In *wadiah* (or safekeeping), the bank safekeeps your money and pays it back on demand. Unlike a conventional deposit, a *wadiah* account does not promise the depositor a fixed return, but the bank has the discretion to provide the depositor a hibah or gift. It can classified further into two: (1) *wadiah yad amanah*, or pure safekeeping without provision for hibah, and (2) *wadiah yad dhamanah*, or the version that provides *hibah* (Abdullah & Chee, 2010).

(b) In *mudharabah* (or profit-sharing), the depositor acts as an investor providing capital to the bank, which will then be an entrepreneur providing expert advice on investing. In theory, the bank assumes the role of a fund manager.

Profits generated from the use of the mudharabah will then be distributed to the depositor and the bank based on the agreed profit-sharing ratio. In case of losses, however, the depositor shall shoulder all of it (Abdullah & Chee, 2010).

(c) In *qard hassan*, these deposit products offers no returns at all, and the bank can use the fund wherever it wishes to. Unlike the first two deposit products, it is less popular and less available because depositors do not receive returns (Abdullah & Chee, 2010). These deposit products augment the liquidity of the Bank by providing Shariah- compliant products which does not provide riba or interest to the depositors, but at the same time, providing a vehicle for Muslims to save their hard-earned money.

3.2.3. Service and business income

For the year ended December 31, 2021, AAIIBP's major sources of revenue are business income, which comprises 94% of the Bank's total revenues, and service income. Business income is composed of interest income from conventional banking products such as investments and loans, and financing income such as the rentals and markups charged to consumers on Islamic financing schemes. Service income, on the other hand, includes bank fees and commissions.

3.3. Industry analysis

To date, AAIIBP is still the only Islamic bank in the country. Asked whether BSP has received inquiries regarding the establishment of a domestic or a foreign Islamic bank, or a creation of an Islamic banking unit in a conventional bank, Diokno stated that no formal application has been submitted to BSP to date, adding that potential players are perhaps conducting market research (Villanueva, 2022).

In addition, S&P Global does not expect immediate material progress from other banks due to lack of interest in serving the Islamic banking market, citing significant set-up costs for the establishment of Islamic banking units, and potential additional exposure to credit risk due to the low-income profile of the borrowers. S&P Global thinks that as the only Islamic bank so far, AAIIBP should convince potential investors that Islamic banking can gain traction in its own operations by providing a sustainable revenue stream before others can be convinced to follow suit.

4. Conclusion

Islamic banking can help fulfill the mandate of the government to include more Filipinos, especially our Muslim brothers and sisters, in the financial system. As Muslims comprise roughly 10% of the Filipinos, financial inclusion will not be complete if their banking and financing needs stay unnoticed and unserved. What makes Islamic banking more attractive to conventional banking, which can encourage more people, Muslims and non-Muslims alike, to subscribe, are the following: first, the concept of "no-interest" financing can attract people who may want access to cheaper credit; second, as banks seek to minimize exposure to credit risk due to the "no-interest" regime, it will encourage banks to revisit their credit policies by emphasizing more on the future viability of the business project, rather than just assessing the individual creditworthiness of the borrower; third, as Islamic banking is largely based on real financing, it is relatively more resistant to economic bubbles than conventional banking; and, lastly, the concept of "socially-responsible investing" may attract potential investors to use Islamic banking for projects involving the environment, social justice, and public welfare.

Also, it is important to note that while Islamic banking needs to gain ground first on the underserved and unbanked Muslim population, this idea seeks to also include the majority of the Filipino population in the future. Numerous studies have identified the factors that can help non-Muslims patronize Islamic banking services: Bananuka et. al. (2019) stated that "creating awareness of Islamic banking's mode of operation among existing and potential clients should be pursued by financial institutions offering Islamic banking services." Thaker et. al. (2019) also stated that loyalty among non-Muslims banking customers are driven by convenience, product pricing, reliability, responsiveness, operational risk and security, and value-added services. Lastly, Saif Soud and Sayilir (2017) stated that non-Muslims will be encouraged to use Islamic banking if they are educated about its products and services. Hence, if the Philippines wants to move forward economically, greater financial inclusion should be one of its priorities, and what a better way to embrace this than to increase initiatives to spread awareness on the benefits of Islamic products and services as a viable alternative source of financing, as well as to offer conventional and Islamic products and services in harmony.

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[1] The initials 'swt' stands for subhanahu wa ta'ala, which means "Glorified and Exalted is He".

[2] The initials 'pbuh' stands for "Peace Be Upon Him".

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