

THE THAI MUSLIM AND ISLAMIC FINANCIAL INSTITUTIONS IN THAILAND

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Abstract: *The research delves into the historical background of Islam in Thailand, shedding light on the cultural and economic interactions between the Muslim minority and the broader Thai society. Special attention is given to the emergence and development of Islamic financial institutions within this context, investigating their growth, challenges, and contributions to the overall financial sector. Methodologically, a combination of qualitative and quantitative approaches is employed to gather data on the financial habits of the Thai Muslim population and the performance of Islamic financial institutions. Interviews, surveys, and financial data analysis are utilized to gain insights into the preferences, challenges, and opportunities faced by both the Muslim community and Islamic financial institutions. The findings of this study contribute to the understanding of how Islamic finance is adapted and practiced in a non-Muslim majority country. It also explores the potential impact of Islamic financial institutions on economic development and financial inclusion for the Thai Muslim population. The research not only adds to the academic discourse on Islamic finance but also provides practical insights for policymakers and financial institutions looking to enhance financial services for diverse communities within a pluralistic society.*

Keywords: *Economic Development, Financial Inclusion, Islamic Finance.*

INTRODUCTION

The Thai Muslim community is not regarded by the Thai authorities and society as a "minority" group. The minorities in Thailand consist of various ethnic groups such as Thai Yai, Karen, and Wah. The Thai Muslim community, on the other hand, consists of Thais who profess the Islamic faith. As Thailand continues to develop economically, understanding the financial needs of the Muslim community is essential. Factors such as consumption patterns, investment preferences, and the role of Islamic financial institutions can provide an in-depth understanding of how this community engages in the national economy.

Thailand is a multi-religious country and Islam is the second largest religion with over six million followers. The majority of Muslims are populated in the provinces of Yala, Pattani, Narathiwat, Satun, and Songkla. Since these provinces, located in the Southern Region, are situated adjacent to the Northern States of Malaysia, they are therefore easily exposed to and influenced by the Malaysian Islamic banking system. The Islamic banking system in Thailand first started when the Government Savings Bank (GSB) introduced the 'Islamic window' concept in 1998. A similar method was also implemented by the Bank for Agriculture and Agricultural Cooperatives (BAAC) in 1999 and followed by the introduction of the 'Islamic Branch' by Krung Thai Bank in 2001. The Islamic banking system expanded further when the Islamic Bank of Thailand was established by the Thai government in 2003 (Haron & Yamirudeng, 2003).

The growth of Islamic financial institutions in Thailand reflects a response to the needs and preferences of the Muslim community. Understanding the evolution of these institutions' evolution in regulatory and business development provides a foundation for investigating how Islamic financial institutions fit into the national financial landscape (Albritton, 2005).

Since Islamic banking in Thailand is relatively new, it faces many challenges. Among these are economic region, public acceptance, rules and regulations, meeting public demand and infrastructure. Overcoming these challenges involves the hard works and diligent efforts from various parties. The main objective of this paper is to elaborate in detail those challenges and provide remedial solutions. This paper is divided into five sections. Section Two and Three provide an overview of the total banking system and the development of the Islamic banking system in Thailand, respectively. Section Four discusses the prospects and challenges of this new system as an alternative to the conventional system. Section Five provides the concluding remarks (Decharuk et al., 2009).

LITERATURE REVIEW

1. The Bank of Thailand (BOT)

Initially, all central banking activities were performed by the Thai National Banking Bureau, which was established in 1939. However, these activities were taken over by the central bank, i.e. the Bank of Thailand (BOT) upon its establishment in 1942.

Just like any other central banks, the BOT is responsible in formulating monetary policy, supervising financial institutions to ensure that they are secured and supportive of economic development, acting as banker as well as recommending economic policy to the government, acting as banker to financial institutions, managing the international reserves, and printing and issuing bank notes (Khiaonarong, 2000).

Currently, BOT has four regional branches, which perform central banking activities in their locality. The North Eastern Region Office is located in Khon Kaen, the Southern Region Office is located in Songkhla, and the Northern Region Offices are located in Chiang Mai and Lampang. In addition, BOT has also set up Overseas Representative Offices, which are responsible for gathering and compiling information related to the general economic condition and technical developments abroad for the benefit of international reserve management and banking development. These offices, i.e. The Bank of Thailand New York Representative Office, and The Bank of Thailand London Representative Office, also manage international reserves as assigned by the Head Office and act as coordinator with the central banks in the countries where they are located. Furthermore, they are in charge in the assessment of the financial institutions with which BOT has business operations (Mullineux et al., 2003).

2. Specialized Banks

Specialized banks are government-owned banks established under specific legislation. Their objectives are to provide financial services to their target customer groups. Currently, there are four different specialized banks operating in Thailand (Scully, 1984).

2.1. Government Savings bank (GSB)

GSB was established in 1913 with the objective of mobilizing small savings. The bank is owned and operated by the government. It has an extensive network of branches and mobile units both on land and along waterways accepting deposits all over the country. Funds are mobilized from the public in the form of time, call, current, and endowment deposit, as well as GSB lottery. In 1992, GSB had 524 branches, including 20 new branches and 11 mobile units that were opened in that year. To complement its financial activities, ATM facility was introduced by GSB in 1996.

2.2. Bank for Agriculture and Agricultural Cooperatives (BAAC)

The Bank for Agriculture and Agricultural Cooperatives was established under the Bank for Agriculture and Agricultural Cooperatives Act, B.E. 2505 (1966), by taking over the assets and liabilities of the Bank for Cooperatives, which had been in existence since 1947. The Bank's main function is to provide credit to the agricultural sector. In line with this, the BAAC is empowered to provide favorable terms of assistance to promote the livelihoods and economic activities of farmers, farmer's group, and agricultural cooperatives. The main sources of funds of BAAC derive from deposit facilities, bond insurance, foreign and domestic borrowing, and securing BOT loans.

2.3. Government Housing Bank (GHB)

The Government Housing Bank was set up in 1953 under the Government Housing Bank Act, B.E. 2496(1953). It is wholly owned by the government and is under the supervision and control of the Ministry of Finance. The GHB primarily provides long-term loans at low interest rate to assist low and middle income groups in purchasing houses.

2.4. Export-Import Bank of Thailand (EXIM)

EXIM was established in 1994 with the principal objective of providing financial support for international trade and foreign investment. To complement its financial role, the bank offers direct loans, guarantees loans, insures exports, or provides other financial services. In addition, EXIM provides advice regarding import/export-related matters to Thai businesses. The principal source of funds comprise of domestic and foreign borrowings as well as the issuance of debt instrument.

3. Finance, Finance and Securities, and Credit Foncier Companies

Authorized by the Acts on the Undertaking of Finance Business, Securities Business, and Credit Foncier Business of 1979, this group of financial institutions normally raises capitals from the issuance of promissory notes. These financial institutions also issue bills of exchange and certificates of deposit. Finance businesses are under the supervision of the BOT, while securities businesses come under the supervision of the Securities and Exchange Commissions (SEC) (Haron & Yamirudeng, 2003).

Commercial banks are the largest institutions in mobilizing funds in Thailand. As at the end of 2002, total assets of commercial banks in Thailand stood at 6,466,151 million baht while total deposits and total credits amounted to 5,188,321 million baht and 4,623,331 million baht respectively. Initially, there was no specific law governing commercial banking business in Thailand. The only requirement to set up a bank in Thailand is the Royal Charter, which was granted through the Minister of Agriculture. Moreover, there was no tight supervision imposed by the government on the activities of the commercial banks. The first piece of legislation governing the commercial banking business was the Act Regulating Commercial Activities Affecting the Safety and Welfare of the Public.

4. The Development of Islamic Banking System in Thailand

The history of Islamic financial system in Thailand started with the establishment of a cooperative society, Pattani Islamic Saving Cooperative, that operates based on Shariah in 1987. By the end of 2001, four other Islamic saving cooperatives were established in Southern Thailand, i.e. Ibnu Affan Saving Cooperative (Pattani), As-Siddiq Saving Cooperative (Songkla), Saqaffah Islam Saving Cooperative (Krabi), and AlIslamiah Saving Cooperative (Phuket). These Islamic cooperative societies have successfully established International Journal of Islamic Financial Services Vol. 5 No.2 themselves as viable financial institutions in managing and mobilizing Muslims funds in this region. For example, total assets for Pattani Islamic Saving Cooperative at the end of 2001 were 90 million baht, while total assets for the Ibnu Affan Islamic Saving Cooperative were 60 million baht as at the end of 2002 (Leightner & Alam, 2002).

The Islamic banking products and services were first introduced to Muslims in Thailand with the implementation of "Islamic Window" by GSB in 1998. A similar concept was also introduced by BAAC in 1999. The Krung Thai Bank is the first bank to set-up an 'Islamic Branch' in 2001. This branch offers a full range of basic banking products and services based on Islamic principles (Salleh & Adulpakdee, 2012).

Another key milestone for Islamic banking in Thailand was the enactment of the Islamic Bank of Thailand Act 2002. This law paved the way for the establishment of the first full-pledge Islamic bank, Islamic Bank of Thailand in 2003. This bank, which is located in Bangkok plans to open branches in Yala, Pattani, Narathiwat and Songkla (Haron & Yamirudeng, 2003).

RESEARCH METHOD

This type of research is descriptive qualitative research with a literature study research method through literature studies sourced from journals of previous research results (Kurniawan, 2014) related to the title, also through access to data obtained from the website as an information publication. Qualitative descriptive research can be interpreted that the researcher is the key instrument where data collection techniques are carried out by combining and analyzing data inductively (Sugiyono, 2012) so as to produce and process descriptive data such as narrating the results of interviews and or observations.

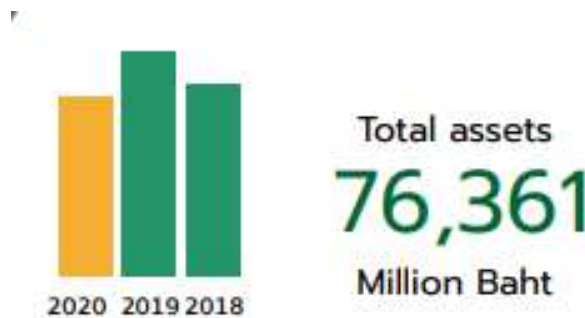
RESULTS AND DISCUSSION

	Million Baht			Change	
	2020	2019	2018	Increased (Decreased)	Percent
Financial position and operating performances					
Total assets	76,360.71	81,315.72	80,590.34	(4,955.01)	(6.09)
Financing	56,816.58	54,310.44	50,142.13	2,506.14	4.61
Financing and accrued income, net	47,298.23	47,249.58	43,350.87	48.65	0.10
Deposits	75,168.52	79,307.49	78,460.60	(4,138.97)	(5.22)
Total liabilities	79,852.35	82,193.35	81,992.10	(2,341.00)	(2.85)
Equity	(3,491.64)	(877.64)	(1,401.76)	(2,614.00)	(297.84)
Financing and investment income	2,183.95	2,697.60	2,830.81	(513.65)	(19.04)
Total income	2,556.14	3,944.93	3,772.54	(1,388.79)	(35.20)
Net Profit (loss)	(2,766.71)	566.01	530.77	(3,332.72)	588.81
Earnings per share: Baht					
Profit (loss) per share	(0.00152)	0.00031	0.00167		
Share value					
Book value	(0.0019)	(0.0005)	(0.0044)		
Financial ratio (%)					
Returns on average assets	(3.51)	0.70	0.70		
Returns on average equity	(126.64)	(49.66)	(4.96)		
Net income (losses) per total income	(108.24)	14.35	14.07		
Capital Fund ratio	(6.51)	(1.86)	(3.17)		

Source: (Islamic Bank of Thailand, 2020)

Figure 1. Financial Highlights

1. Total Assets

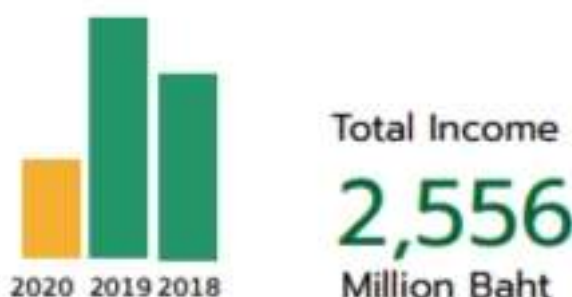


Source: (Islamic Bank of Thailand, 2020)

Figure 2. Total Assets in Islamic Bank of Thailand

At December 31, 2020, the Bank had total assets of 76,361 million baht which decreased from 2019 by 4,955 million baht or 6%, mainly due to a decrease in NPL receivables of 3,796 million baht. The main item came from receivable from NPL transfer that decreased by 3,796 million baht. Debt in 2020 was 79,852 million baht, a decrease of 2,341 million baht due to a decrease in deposits (including financial institutions) and due to large maturity fixed deposits and excess liquidity management by reducing fixed deposits with high costs. For owners' equity was negative increased from business profits which loss, increasing from negative 877 million baht in 2019 to negative 3,491 million baht in 2020.

2. Total Income

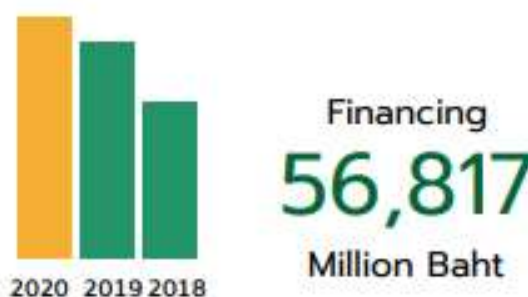


Source: (Islamic Bank of Thailand, 2020)

Figure 3. Total Income in Islamic Bank of Thailand

Net financial income in 2020 decreased by 237 million baht or 17% from the year 2019. Although the Bank was able to manage its financial expenses decreased by 273 million baht, the decrease in loan income was 510 million baht due to the impact of economic conditions and the COVID-19 situation, which reduced the ability of customers to pay off their debts, resulting in the need to take credit relief measures or require cessation of revenue recognition, including customer loan repayment. Large businesses that cannot be replaced in time from the expansion of retail loans, resulting in income from loan expansion is not meeting the target, therefore, the net financial income has decreased as mentioned above.

3. Financing



Source: (Islamic Bank of Thailand, 2020)

Figure 4. Financing in Islamic Bank of Thailand

At the end of 2020, the Bank had total Financing of 56,817 million baht (excluding Financing to financial institutions) which increased from the year 2019 by 2,507 million baht or 5%. In this regard, the Bank's overall Financing structure at December 2020 had large business Financing (amount greater than 200 million baht) in the proportion of 47 percent, with outstanding balance of 26,515 million baht, followed by retail Financing at 33%, with outstanding balance Outstanding 18,926 million baht and SMEs loans accounted for 20 percent, totaling 11,375 million baht. When

considering the total number of Financing customers of the bank, approximately 32 percent of the customers are Islamic and about 68% of the customers are other religions.

4. Net Loss



Source: (Islamic Bank of Thailand, 2020)

Figure 5. Net Loss in Islamic Bank of Thailand

The Bank was able to manage its financial and operating expenses very well with total expenses decreased by more than 391 million baht or 13% from 2019. However, due to the lower revenue impact, the Bank recognized an operating loss of 166 million baht. In addition, the Bank has set up a reserve for those large state-enterprise debtors in the amount of 2,480 million baht and when combined with the general reserve set up to accommodate asset quality risks during the economic slowdown resulting in a net loss of 2,767 million baht. However, excluding the impact of extraordinary items and the establishment of a reserve for a large state-enterprise debtor, the Bank will have operating profit of 35.17 million baht and net profit of 120.57 million baht which is better than forecast according to the 2020 Strategic Plan, review edition.

CONCLUSIONS AND SUGGESTIONS

The key milestone to the development of an Islamic banking system in Thailand was the introduction of an 'Islamic window' concept by the Government Savings Bank in 1998, followed by the Bank for Agriculture and Agricultural Cooperatives in 1999. The introduction of 'Islamic Branch' by Krung Thai Bank in 2001 and the establishment of the Islamic Bank of Thailand in 2003 paved the way for a vibrant Islamic banking system in the country.

The government must also play an important role in providing a conducive environment for the Islamic banks to operate. Appropriate rules and regulations must be introduced to protect both banks and customers. As a new market player, Islamic bank faces limited investment opportunities. One of the measures can be taken by government to overcome this limitation is through the issuance of Islamic bonds and bills. Lastly, cooperation amongst Muslim countries, especially Malaysia is paramount in assisting Thailand to develop a more comprehensive Islamic banking system.

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