**The Practice of Islamic Bank in Zakat Distribution: The Case of Malaysia**

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**Abstract. Islamic banks have been bombarded with the accusations being the same with its conventional sides. Consequently, the public are not convinced with the title ‘Islamic’ that Islamic banks have been carrying. Despite a growing literature on the reporting practices of Islamic banks, there is a need of research on the role of Islamic banks in zakat distribution. This descriptive, content analysis examined the annual reports and financial statements of Islamic banks to explore information that can be found in these documents. Documents from year 2018 until year 2020 was searched using their individual website and downloaded. Results indicated that Islamic banks do not disclose much information on zakat distribution, since it considered as voluntary disclosure. Annual reports and financial statements are means of corporate communicate o the public. Thus, disclosing such information is recommended.**

**Keywords:** Islamic Banks, Zakat Distribution, Annual Reports, Financial Statements.

1. Introduction

Licensed Financial Institutions in Malaysia have several types: commercial banks, Islamic banks, international Islamic banks, investment banks and others. [[[1]](#endnote-1)] The main difference between an Islamic bank and a conventional bank is the zakat element. Islamic banks collect and distribute zakat while conventional banks do not deal in zakat. [2]

In Malaysia, Islamic banks have many functions, it is included distribution of their own zakat payment. This study emphasizes zakat distribution practices of Islamic banks. Zakat distribution methods that are suggested by Rahman [3] are:

1. Payment directly to the asnaf or self-distribution,
2. Payment made to the authority, or
3. Combination of former methods.

According to Badarulzaman [4], one of Islamic banks choose the third method where they pay had of the zakat amount to the zakat authority and the remaining will be distributed to the asnaf by themselves. By choosing the first and third method, Islamic banks act as zakat distributor. [5] After paying a certain amount to zakat authorities, Islamic banks are titled for wakalah zakat which is a refund system where zakat payers in this case Islamic banks receive an assignation of authority to eligible beneficiaries based on a specific condition. [6] Hence, adding another method to the former categorization.

In this respect, Islamic banks are deemed accountable to various stakeholders including zakat beneficiaries (asnaf), government and community at large. [7] Corporate institutions may communicate this kind of information using reports that are published online and easily accessed by the public. [8]

However, researchers pay very limited attention to the zakat distribution practiced by Islamic banks. They conducted more research on zakat institutions focusing on the efficiency and effectiveness of collection and distribution. This is due to zakat institutions being the main collector and distributor of zakat.

There are some research about corporate zakat distribution of Islamic banks which have become the reference for this research which cover the research of Rahman [3], Pauzi, Wahid and Ahmad [9], Ismail, Wahid and Karim [10], and Shah and Hassan [11].

According to Rahman [3], Islamic banks have been actively helping the society especially the asnaf in the betterment of their life which is the opposite of the assumption where Islamic banks operate on profit-making basis only.

Pauzi, Wahid and Ahmad [9] identify the importance of financial institutions particularly Bank Rakyat (a development financial institution in Malaysia) in distributing zakat in Malaysia. They found out by participating in zakat distribution, Islamic banks can help zakat institutions in locating asnaf in their own locality by looking at banks’ branches in each state thus making zakat distribution fairer and more efficient.

Ismail, Wahid and Karim [10] conduct research aims to look at the role of Bank Rakyat in distributing their zakat in helping asnaf in improving their health. It was found that this bank is actively helping asnaf for their medical assistance, purchasing health aids and natural disaster relief by looking at the minutes of meeting and annual report.

Shah and Hassan [11] compare and contract two Islamic banks’ zakat collection and distribution framework and the federal zakat authority’s framework. They found out that federal zakat authority has several categories in their framework. On the other hand, by looking at Islamic banks’ annual report, it is found out they have a different framework. The study recommends that Islamic banks are to follow the federal zakat authority zakat distribution framework or to formulate own framework to ensure good governance.

Hence, exploring the practices of Islamic banks in zakat distribution are the focus of this study especially in answering the question: is there any changes of zakat information pre- and post-Covid-19 pandemic in the annual reports of Islamic banks in Malaysia. Hence, closing the gap in this latent study. This study however, only focusing on the 16 licensed Islamic banks in Malaysia, excluding development financial institutions and other commercial banks.

1. Methodology
   1. Research design

This study applies content analysis on the annual report or financial statements of Islamic banks for the year 2018 until 2020 to explore information on zakat distribution practices. Content analysis was preferred since it was the most commonly used method in examining written material including annual reports. [12] Thus, these documents were searched on the individual’s bank website and downloaded.

Consistent with study conducted by Muhammad and Hanefah [13] this study however focused only to Islamic banks in collecting any related zakat information that can be found in the annual reports or financial statements including method in distributing zakat and the beneficiaries of zakat.

* 1. Sample

List of Islamic banks in Malaysia was taken from BNM website [14] for the year 2021 as the sample size. According to the website, there are 16 Islamic Licensed Financial Institutions in Malaysia as follows:

**Table 1.** Islamic Banks in Malaysia

|  |  |  |
| --- | --- | --- |
| No. | Bank | Ownership |
| 1. | Affin Islamic Bank Berhad | L |
| 2. | Al-Rajhi Banking & Investment Corporation (Malaysia} Berhad | F |
| 3. | Alliance Islamic Bank Berhad | L |
| 4. | AmBank Islamic Berhad | L |
| 5. | Bank Islam Malaysia Berhad | L |
| 6. | Bank Mualamat Malaysia Berhad | L |
| 7. | CIMB Islamic Bank Berhad | L |
| 8. | Hong Leong Islamic Bank Berhad | L |
| 9. | HSBC Amanah Malaysia Berhad | F |
| 10. | Kuwait Finance House (Malaysia) Berhad | F |
| 11. | Maybank Islamic Berhad | L |
| 12. | MBSB Bank Berhad | L |
| 13. | OCBC Al-Amin Bank Berhad | F |
| 14. | Public Islamic Bank Berhad | L |
| 15. | RHB Islamic Bank Berhad | L |
| 16. | Standard Chartered Saadiq Berhad | F |

Source: BNM Website

From the table above, there are 11 local Islamic banks and 5 foreign Islamic banks licensed under BNM. It is important to highlight that this research is specifically discussing on the distribution of zakat paid by the Islamic banks. Thus, the data was collected from Islamic banks that pay zakat in Malaysia. Therefore, all local Islamic banks and one foreign bank which is OCBC Al-Amin are included in this study.

Early observation found that the financial statements of each Islamic banks may ended at three dates which are 31st March, 30th June or 31st December each year as in table below:

**Table 2. Financial Year Ended of Islamic Bank**

|  |  |  |
| --- | --- | --- |
| No. | Bank | Financial Year Ended |
| 1. | Affin Islamic Bank Berhad | 31st December |
| 2. | Alliance Islamic Bank Berhad | 31st March |
| 3. | AmBank Islamic Berhad | 31st March |
| 4. | Bank Islam Malaysia Berhad | 31st December |
| 5. | Bank Mualamat Malaysia Berhad | 31st December |
| 6. | CIMB Islamic Bank Berhad | 31st December |
| 7. | Hong Leong Islamic Bank Berhad | 30th June |
| 8. | Maybank Islamic Berhad | 31st December |
| 9. | MBSB Bank Berhad | 31st December |
| 10. | OCBC Al-Amin Bank Berhad | 31st December |
| 11. | Public Islamic Bank Berhad | 31st December |
| 12. | RHB Islamic Bank Berhad | 31st December |

Source: Author’s own

At the time of the study was conducted in October 2021, the annual report of Hong Leong Islamic Bank Berhad has yet to be published since their financial year ended 30th June. Thus, three latest reports will be used for the study.

Moreover, it is important to mention that some of the banks the financial statements only while the others published their annual reports as in table below:

**Table 3. Type of Documents of Islamic Bank Published**

|  |  |  |
| --- | --- | --- |
| No. | Bank | Type of Documents |
| 1. | Affin Islamic Bank Berhad | Annual Report |
| 2. | Alliance Islamic Bank Berhad | Annual Report |
| 3. | AmBank Islamic Berhad | Financial Statements |
| 4. | Bank Islam Malaysia Berhad | Annual Report |
| 5. | Bank Mualamat Malaysia Berhad | Annual Report |
| 6. | CIMB Islamic Bank Berhad | Financial Statements |
| 7. | Hong Leong Islamic Bank Berhad | Annual Report |
| 8. | Maybank Islamic Berhad | Financial Statements |
| 9. | MBSB Bank Berhad | Annual Report |
| 10. | OCBC Al-Amin Bank Berhad | Financial Statements |
| 11. | Public Islamic Bank Berhad | Financial Statements |
| 12. | RHB Islamic Bank Berhad | Financial Statements |

Source: Author’s own

Based on the table above, there are two types of documents were used in this study, i.e., annual report and financial statements. According to Malaysian Institute of Accountants (MIA), annual report comprises information of a company including the financial report/statement. Additional non-compulsory information can also be found in this report. On the other hand, financial report provides people who are interested in a company with financial information particularly on financial performance and its position during the year. [15] Thus, it is expected that those banks with annual reports disclose a lot more information than those with financial statements.

1. Results & Discussion

To ensure the accurateness in searching zakat information, the search tool was used to find the relevant zakat information. This enables the author to gain more information quickly rather than to read the whole report in its entirety. Results found are discussed below.

* 1. Affin Islamic Bank Berhad

Affin Islamic disclosed in detail in its annual report regarding the beneficiaries of their zakat fund. There are a few entities that repetitively received zakat fund from Affin Islamic Bank namely Tabung Zakat Angkatan Tentera Malaysia, Zakat Majlis Agama Islam dan Adat Melayu Perak and Majlis Ugama Islam dan Adat Resam Melayu Pahang.

While other recipients were not the same throughout the three years particularly the non-governmental organizations (NGOs). Moreover, in response to Covid-19, they disclosed that they give zakat contribution to Hospital Kuala Lumpur, Hospital Sungai Buloh and IIUM Medical Centre. The fund was used in purchasing medical tools and equipment such as face masks, ventilators etc. Hence, reassuring the public about Islamic bank position as a helping hand in times of need and crisis.

In the year 2019 [16] and 2020 [17], Affin Islamic tabulated their beneficiaries according to the prescribed asnaf and the amount that was contributed to each of the categories which is a good practice as shown in the figure below:

Table

Description automatically generated

**Fig. 1.** Tabulation of zakat contribution that can be found in Affin Islamic Bank Annual Report 2020 at page 27.

Source: Affin Islamic Bank Annual Report 2020

Based on the table shown above, we can understand that there are two asnaf that do not receive any zakat fund from Affin Islamic which are Gharimin and Riqab. However, no explanation for this can be found in the annual report.

* 1. Alliance Islamic Bank Berhad

The information found in the financial statements of Alliance Islamic for the year 2018 [18] and 2020 [19] remain the same. However, for the year 2019, they disclosed that they allocated a certain amount for the purchase of emergency relief for frontliners at Hospital Kuala Lumpur and other hospital in the light of covid-19. [20] In this regard, it is understood that information that can be found in the financial statements are not that much.

* 1. Ambank Islamic Berhad

There is no information worth mentioning as there is no changes of information throughout the three years.

* 1. Bank Islam Malaysia Berhad

Bank Islam has been using zakat fund as the main drivers of their Corporate Relation-related activities thus contributing to a great deal of information. Bank Islam being one of the most zakat payers among Islamic banks, has always paying their zakat to 14 states in Malaysia. They also mentioned about wakalah zakat and the entities that received zakat fund from the bank. They also distributed the zakat using bank’s branches that are located in each state.

In 2019, Bank Islam create Centre of Social Finance with the aim to manage zakat, waqf and public creation. [21] This is due to the huge amount of zakat and other charity funds that need a special care and management. Throughout the three years, zakat information increased, and the arrangement of information is understandable by the readers.

* 1. Bank Muamalat Malaysia Berhad

Bank Muamalat created Tabung Mawaddah in 2002 as a means to aid and arrange charitable activities to channel zakat fund to eligible recipients.[22] Similar to Bank Islam, Bank Muamalat has been paying a huge amount of zakat amounting to millions every year thus the establishment of Tabung Mawaddah is crucial in managing zakat fund. Bank Muamalat also mentioned that they distributed their zakat to all eight (8) asnaf [23, 24] however there was limited information on zakat distribution.

* 1. CIMB Islamic Bank Berhad

There is no information worth mentioning as there is no changes of information throughout the three years of study.

* 1. Hong Leong Islamic Bank Berhad

Hong Leong Islamic mentioned in their annual report 2020 that they received wakalah zakat from Pusat Pungutan Zakat Majlis Agama Wilayah Persekutuan (PPZ MAIWP) and listed all efforts that were done in their zakat distribution practices [25] which is a good practice.

* 1. Maybank Islamic Bank Berhad

There is no information worth mentioning as there is no changes of information throughout the three years of study.

* 1. MBSB Bank Berhad

There is no information worth mentioning as there is no changes of information throughout the three years of study.

* 1. OCBC Al-Amin Berhad

In the financial statements for the financial year ended 31st December 2018, OCBC Al-Amin listed in detail the recipients of their zakat fund that can be seen on page 15 [26]:

“Relating to the financial year 2017, the Bank made zakat payment on its business to state zakat authorities and the zakat is computed using the growth capital method. The beneficiaries of the zakat fund were Pusat Pungutan Zakat Universiti Putra Malaysia (UPM), International Islamic University Malaysia (IIUM) Endowment Fund, Tabung Amanah Zakat Universiti Kebangsaan Malaysia (UKM) and Universiti Teknologi Mara (UiTM) Zakat Centre.”

However, year after that, they stated that they only pay their zakat to Lembaga Zakat Selangor. [27,28] This may be due to changes of internal policy.

* 1. Public Islamic Bank Berhad

There is no information worth mentioning as there is no changes of information throughout the three years of study.

* 1. RHB Islamic Bank Berhad

There is no information worth mentioning as there is no changes of information throughout the three years of study.

This current study found that less information is disclosed in the financial statements befitting its name as described by MIA and on the other hand, a great deal of information can be found in the annual reports of these banks. However, how they arrange the information and what information to be disclosed are not the same. There are several factors that contribute to these findings:

1. Zakat information disclosure is voluntary and there are no specific regulations on how zakat information should be disclosed. Hence, it depends on the management of each bank to decide.
2. The perception of no body looks up for zakat information of Islamic banks. Hence, leads to no creativity in reporting.
3. Information such as beneficiaries of zakat is no longer deemed important. In this regard, it is no longer mentioned to be reported in the latest BNM Financial Reporting that was issued on 27th September 2019 [29] compared to the guideline that was issued on 2nd February 2018 [30].
4. Conclusion & Recommendation

The main objective of this study was to explore the change of zakat information disclosure in the annual reports and financial statements of Islamic banks for the year 2018 until 2020. Only two banks which are Affin Islamic Bank Berhad and Alliance Islamic Bank Berhad disclosed their efforts in their reports in the response of Covid-19. Other banks may have done something but choose not to disclose in these reports or they might have disclosed it in their group annual report. The good practices that were shown by some banks should be taken as an example for other banks to take and implement. Hence, making the public more convinced of Islamic banks’ practices in becoming the helping hand and encouraging the companies to do more business transactions with Islamic banks.

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1. [↑](#endnote-ref-1)