

## REGULATORY CHALLENGES OF ISLAMIC BANKING IN THE PHILIPPINES: THE CASE OF AL-AMANAH BANK

Milhaya Dianalan Langco <sup>1</sup>

<sup>1</sup> Mindanao State University Philippines

Corresponding Author Email: [milhaya.langco@msumain.edu.ph](mailto:milhaya.langco@msumain.edu.ph)

### ABSTRACT

Received: 25-02-2026

Accepted: 01-06-2026

#### Keywords:

*Al-Amanah Bank, Islamic banking, Islamic finance regulation, Philippines, Sharia governane*

Islamic finance has emerged as one of the fastest-growing segments of the global financial industry, driven by ethical investment principles, risk-sharing mechanisms, and regulatory developments in many countries. Despite this global growth, the development of Islamic banking in the Philippines has been relatively slow compared with other Southeast Asian countries. This study aims to examine the regulatory and institutional challenges affecting the development of Islamic finance in the Philippines, focusing on the experience of the Al-Amanah Islamic Investment Bank of the Philippines. The study employs a qualitative descriptive approach using document analysis of legal frameworks, institutional reports, and relevant academic literature related to Islamic banking regulation in the Philippines. The findings indicate that the slow development of Islamic finance in the Philippines is influenced by several factors, including limited regulatory frameworks in the past, lack of institutional capacity and expertise in Islamic finance, taxation issues, and low public awareness regarding Islamic banking services. Although the enactment of Republic Act No. 11439 (Islamic Banking Act of 2019) represents a significant milestone in providing a legal framework for Islamic banking operations, challenges remain in terms of regulatory implementation, institutional readiness, and market development. The study concludes that strengthening regulatory capacity, improving public awareness, and developing institutional expertise are essential to support the sustainable growth of Islamic banking in the Philippines. A limitation of this study is that it relies primarily on secondary data and policy documents.

### 1. INTRODUCTION

Islamic finance has developed into a significant component of the global financial system over the past three decades, expanding rapidly across both Muslim-majority and non-Muslim countries due to increasing demand for ethical investment practices, risk-sharing mechanisms, and socially responsible financial frameworks. Operating in more than seventy countries, Islamic financial institutions have gained global recognition for offering financial services based on Shari'ah principles, which prohibit interest (riba), excessive uncertainty (gharar), and speculative activities (maysir), while promoting profit-and-loss sharing arrangements, asset-backed financing, and ethical investment practices. These principles distinguish Islamic finance from conventional financial systems and have contributed to the growing interest in Islamic banking among both Muslim and non-Muslim investors seeking alternative financial models that emphasize fairness, transparency, and social justice.

Islamic banking represents one of the most prominent sectors within the Islamic finance industry, utilizing financial instruments such as murabaha (cost-plus financing), mudarabah (profit-sharing partnerships), musharakah (joint investment partnerships), and ijara (leasing) to provide Shari'ah-compliant financial services without relying on interest-based transactions. The successful development of

Islamic banking in countries such as Malaysia and the United Arab Emirates has been closely associated with the existence of comprehensive regulatory frameworks that support Shari'ah governance, risk management, and institutional supervision. These regulatory frameworks have enabled the establishment of dual-banking systems in which Islamic banks operate alongside conventional banking institutions.

In contrast, the development of Islamic banking in the Philippines has historically remained limited. Islamic financial services in the country have primarily been represented by the Al-Amanah Islamic Investment Bank of the Philippines, which was established to promote socio-economic development among Muslim communities, particularly in the southern regions of the country. For many years, the growth of Islamic banking in the Philippines was constrained by the absence of a comprehensive legal and regulatory framework governing Islamic financial institutions. This situation began to change with the enactment of Republic Act No. 11439, known as the Islamic Banking Act of 2019, which established a legal framework for the establishment and supervision of Islamic banks and Islamic banking units under the authority of the Bangko Sentral ng Pilipinas.

Despite this regulatory development, the implementation and expansion of Islamic banking in the Philippines continue to face several institutional and market-related challenges,

including limited expertise in Islamic finance, regulatory adaptation issues, taxation concerns affecting Islamic financial products, and low levels of public awareness regarding Islamic banking services. While existing studies on Islamic finance have largely focused on countries with well-established Islamic financial systems, relatively limited attention has been given to the institutional and regulatory challenges affecting Islamic banking development in minority-Muslim contexts such as the Philippines. Therefore, this study aims to examine the regulatory and institutional challenges influencing the development of Islamic banking in the Philippines through an analysis of the experience of the Al-Amanah Islamic Investment Bank, with the objective of contributing to a better understanding of the conditions necessary for the sustainable development of Islamic finance in emerging financial systems.

## 2. METHODS

This study uses a qualitative research approach with a case study design to examine the regulatory and institutional challenges affecting the development of Islamic banking in the Philippines, focusing on the Al-Amanah Islamic Investment Bank as the primary case. The research relies on secondary data derived from legal documents, government regulations, institutional reports, and academic literature related to Islamic finance and banking regulation. Key sources include Republic Act No. 6848 concerning the charter of the Al-Amanah Islamic Investment Bank, Republic Act No. 11439 or the Islamic Banking Act of 2019, regulatory publications from the Bangko Sentral ng Pilipinas, and relevant scholarly studies on Islamic finance. Data were collected through document analysis by systematically reviewing policy documents, institutional reports, and academic publications relevant to Islamic banking development in the Philippines. The collected data were analyzed using qualitative content analysis to identify key themes related to regulatory frameworks, institutional capacity, governance mechanisms, and market challenges influencing the development of Islamic banking in the country.

## 3. RESULTS AND DISCUSSION

### Historical Development of Islamic Banking in the Philippines

Islamic banking in the Philippines has a relatively unique historical trajectory compared with other Southeast Asian countries. The establishment of Islamic banking institutions in the country was closely linked to the socio-economic development of Muslim communities, particularly in the southern regions of Mindanao. The Philippine Amanah Bank was initially created through Presidential Decree No. 264 in 1973 during the administration of President Ferdinand Marcos. The primary objective of establishing the bank was to provide financial services tailored to the needs of Muslim communities while promoting economic development in Muslim-dominated provinces.

The bank was later transformed into the Al-Amanah Islamic Investment Bank of the Philippines under Republic Act No. 6848 in 1990. This transformation aimed to introduce Islamic banking principles into the financial services provided by the institution. The charter of the bank mandated it to promote the socio-economic development of Muslim communities by offering financial services consistent with Islamic banking principles.

Despite this institutional transformation, the operational implementation of Islamic banking principles remained limited. The bank continued to provide both conventional and Islamic banking services due to institutional and regulatory constraints. This hybrid operational model reflected the broader challenges faced by Islamic banking institutions operating within predominantly conventional financial systems.

The experience of Al-Amanah Bank illustrates the difficulties encountered when attempting to introduce Islamic banking systems in environments where regulatory structures and financial institutions are primarily designed around conventional banking practices. These institutional constraints have influenced the overall development of Islamic finance in the Philippines.

Regulatory Constraints Prior to the Islamic Banking Act of 2019

One of the most significant challenges affecting the development of Islamic banking in the Philippines was the absence of a comprehensive legal and regulatory framework governing Islamic financial institutions. For several decades, Islamic banking activities were largely confined to the operations of Al-Amanah Islamic Investment Bank, with limited regulatory provisions supporting the expansion of Islamic financial services.

The legal foundation for Islamic banking was primarily derived from the charter of Al-Amanah Bank and a limited number of regulatory issuances from the Bangko Sentral ng Pilipinas. However, these regulations were insufficient to support the broader development of Islamic finance within the national banking system. As a result, the institutional environment for Islamic banking remained underdeveloped compared with countries such as Malaysia and Indonesia.

This regulatory limitation significantly constrained the growth of Islamic banking institutions. Without a comprehensive regulatory framework, financial institutions faced difficulties in introducing new Islamic financial products, expanding their operations, or attracting investors interested in Shari'ah-compliant financial services.

The enactment of Republic Act No. 11439, known as the Islamic Banking Act of 2019, marked a significant institutional reform. The law established a legal framework that allows the creation and regulation of Islamic banks and Islamic banking units within conventional banks under the supervision of the Bangko Sentral ng Pilipinas. This regulatory development represents a crucial step toward integrating Islamic finance into the Philippine financial system.

Nevertheless, the implementation of the Islamic Banking Act still faces several challenges, particularly in terms of regulatory capacity, institutional expertise, and the development of appropriate financial infrastructure for Islamic banking operations.

#### Institutional Capacity and Governance Challenges

Another major challenge affecting the development of Islamic banking in the Philippines relates to institutional capacity and governance structures. Islamic banking requires specialized expertise in areas such as Shari'ah governance, financial product structuring, and risk management. However, the availability of professionals with expertise in Islamic finance remains limited in the Philippine financial sector.

The effective operation of Islamic financial institutions requires the establishment of Shari'ah advisory boards responsible for ensuring that financial products and transactions comply with Islamic legal principles. In many

countries with well-developed Islamic finance sectors, regulatory institutions maintain formal Shari'ah governance frameworks that guide the operations of Islamic banks.

In the Philippine context, the development of Shari'ah governance mechanisms remains in an early stage. While the Islamic Banking Act provides a legal framework for Shari'ah governance, the institutional capacity required to implement these mechanisms effectively is still evolving.

This institutional limitation highlights the importance of developing human capital and technical expertise in Islamic finance. Capacity-building programs, professional training, and academic research initiatives are essential to support the development of a sustainable Islamic financial system in the Philippines.

#### Market Awareness and Public Acceptance of Islamic Banking

In addition to regulatory and institutional challenges, the development of Islamic banking in the Philippines is also influenced by market awareness and public perception. Many potential customers remain unfamiliar with the principles and financial products associated with Islamic banking.

This lack of awareness affects both Muslim and non-Muslim communities. Although Islamic banking is designed to comply with Islamic law, its financial principles—such as ethical investment, risk-sharing, and asset-backed financing—can also appeal to a broader range of customers seeking alternative financial services.

However, the limited dissemination of information regarding Islamic finance has contributed to low levels of public participation in Islamic banking services. As a result, the deposit base of Al-Amanah Islamic Investment Bank has historically been dominated by government institutions rather than private investors.

This situation indicates the importance of financial education and public awareness campaigns in promoting Islamic banking services. Increasing public understanding of Islamic financial products may encourage greater participation in Islamic banking institutions and support the broader development of Islamic finance in the Philippines.

## 4. CONCLUSION

The development of Islamic banking in the Philippines reflects a complex interaction between regulatory frameworks, institutional capacity, and market conditions. The establishment of the Al-Amanah Islamic Investment Bank of the Philippines represented an important milestone in introducing Shari'ah-compliant financial services within the national financial system. The institution was initially designed to promote the socio-economic development of Muslim communities, particularly in the southern regions of the country. However, its development has been constrained by a number of regulatory and institutional challenges.

One of the most significant obstacles historically affecting Islamic banking development in the Philippines was the absence of a comprehensive regulatory framework governing Islamic financial institutions. For many years, Islamic banking activities were limited to the operations of Al-Amanah Bank, with minimal institutional support for expanding Islamic financial services within the broader financial system. This institutional limitation significantly hindered the growth and competitiveness of Islamic banking in the country.

The enactment of Republic Act No. 11439, also known as the Islamic Banking Act of 2019, represents a major institutional reform that provides a clearer legal framework for the establishment and regulation of Islamic banking institutions in the Philippines. The law opens opportunities for the development of Islamic banks and Islamic banking units within conventional banking institutions under the supervision of the Bangko Sentral ng Pilipinas. This regulatory reform has the potential to facilitate the integration of Islamic finance into the Philippine financial system.

Nevertheless, several challenges remain in the implementation of Islamic banking policies. These challenges include limited institutional expertise in Islamic finance, the need for stronger Shari'ah governance mechanisms, taxation issues affecting Islamic financial products, and relatively low levels of public awareness regarding Islamic banking services. Addressing these challenges requires coordinated efforts from policymakers, financial regulators, and banking institutions.

From a policy perspective, strengthening institutional capacity within regulatory agencies and financial institutions is essential for supporting the development of Islamic banking in the Philippines. In addition, public education initiatives aimed at improving financial literacy regarding Islamic financial products may help increase public participation in Islamic banking services. The development of professional training programs and academic research in Islamic finance may also contribute to building the technical expertise required for managing Shari'ah-compliant financial institutions.

This study contributes to the literature on Islamic finance by providing an institutional analysis of the regulatory and governance challenges affecting Islamic banking development in a minority-Muslim context. While much of the existing literature focuses on countries with well-established Islamic finance industries, this study highlights the institutional dynamics influencing Islamic banking development in emerging financial systems.

However, this study has several limitations. The research relies primarily on document analysis and secondary data sources, which may limit the ability to capture the perspectives of key stakeholders involved in Islamic banking development. Future research could incorporate empirical approaches, including interviews with financial regulators, banking professionals, and Islamic finance experts, to provide deeper insights into the implementation of Islamic banking policies in the Philippines.

## REFERENCES

- Abdellatif, Shahinaz R. (no date of publication). *Islamic leasing (Ijara) is on the rise*. Retrieved from <http://www.capital-markets-intelligence.com/wp-content/uploads/2014/11/Abdellatif.pdf> on May 20, 2023
- Ainley, M., Mashayekhi, A., Hicks, R., Rahman, A., & Ravalia, A. (2007, November). *Islamic finance in the UK: regulation and challenges*. Retrieved from

<http://www.efinancialnews.com/share/media/downloads/2007/11/2349281881.pdf> on May 15, 2023

Ahmed, Salahuddin. (2006). *Islamic banking, finance and insurance: a global view*. Gombak, Kuala Lumpur: A.S. Noordeen.

Al-Amanah Islamic Investment Bank. (2014). *Report on operation and audited financial statements*. Retrieved from <http://www.al-amanahbank.com/files/Download/2014%20annual%20report.pdf> on May 18, 2023

Aris, N., Othman, R., Mohamad Azli, R., Sahri, M., Abdul Razak, D., & Abdul Rahman, Z. (2013). Islamic banking products: regulations, issues and challenges. *The Journal of Applied Business Research*, Vol. 29, No. 4, pp.1145-1156.

Arguillas, Carolyn O. (2013, April 26). *ARMM is poorest region in 2012 but poverty incidence dropped in island provinces*. Retrieved from <http://www.mindanews.com/governance/2013/04/26/armm-is-poorest-region-in-2012-but-poverty-incidence-dropped-in-island-provinces/> on May 19, 2023.

Asian Development Bank. (2020). *Regulation and organization of Islamic banks (Republic Act No. 11439)*, Philippines. <https://lpr.adb.org/resource/regulation-and-organization-islamic-banks-republic-act-no-11439-philippines>

Bank Negara Malaysia. *The Principles and Practices of Shariah in Islamic Finance*. Retrieved from [http://www.bnm.gov.my/guidelines/05\\_shariah/shariah\\_std\\_mudarabah.pdf](http://www.bnm.gov.my/guidelines/05_shariah/shariah_std_mudarabah.pdf) on May 9, 2023.

Bangko Sentral ng Pilipinas. (2019). *Republic Act No. 11439: Islamic Banking Act of 2019*. <https://www.bsp.gov.ph/Regulations/Banking%20Laws/RA11439.pdf>

Bangko Sentral ng Pilipinas. (2019). *Circular No. 1069: Guidelines on the establishment of Islamic banks and Islamic banking units*. <https://www.bsp.gov.ph/Regulations/Issuances/2019/c1069.pdf>

Bangko Sentral ng Pilipinas. (2019). *Circular No. 1070: Shari'ah governance framework*.

<https://www.bsp.gov.ph/Regulations/Issuances/2019/c1070.pdf>

Chapra, Muhammad U. (1985). *Towards a just monetary system*. Leicester, UK: The Islamic Foundation.

El-Gamal, Mahmoud A. (2006). *Islamic finance: law, economics, and practice*. United State of America: Cambridge University Press, New York.

Frasier-Nelson, Elizabeth. (2014, July 17). *Bank Islam Malaysia: a global leader in Islamic finance*. Retrieved from <http://internationalbanker.com/banking/bank-islam-malaysia-global-leader-islamic-finance/> on May 8, 2023.

Gait, Alsadek H. & Worthington, Andrew C. (2007). *A Primer on Islamic Finance: Definitions, Sources, Principles and Methods*. University of Wollongong, School of Accounting and Finance, *Working Paper Series No. 07/05, 2007*. Retrieved from <http://ro.uow.edu.au/cgi/viewcontent.cgi?article=1359&context=commpapers> on May 3, 2023.

Hassan, M. Kabir & Lewis, Mervyn K. (2007). *Handbook of Islamic banking*. United Kingdom, Edward Elgar Publishing Limited Glensanda House Montpellier Parade.

J. F. (2014, October 8). *Why Islamic financial products are catching on outside the Muslim world*. Retrieved from <http://www.economist.com/blogs/economist-explains/2014/10/economist-explains-0> on May 8, 2023.

Lidasan, Mussolini S. (2015, July 7). *Lidasan: what we need to know about Islamic banking and finance in the Philippine setting*. Retrieved from <http://www.sunstar.com.ph/davao/opinion/2015/07/07/lidasan-what-we-need-know-about-islamic-banking-and-finance-philippine> on May 10, 2023.

Lopez, Melissa Luz T. (2015, September 15). *BSP backs bill allowing entry of more Islamic banks in PHL*. Retrieved from <http://www.bworldonline.com/content.php?section=Nation&title=bsp-backs-bill-allowing-entry-of-more-islamic-banks-in-phl&id=115347> on May 20, 2023.

Malaysian Institute of Accountants (MIA). (2012). Tax treatment on Islamic finance in Malaysia. Retrieved from <http://www.mia.org.my/new/downloads/professional/publications/2012/Tax%20Treatment%20on%20Islamic%20Finance%20%28Final%29.pdf> on May 15, 2023.

Morales, R., Mambuay A., Hernandez, S., & Gatmaitan. (2014). *Islamic finance and markets in 10 jurisdictions worldwide*. Retrieved from <http://www.syciplaw.com/Documents/IF2014%20Philippines.pdf> on May 1, 2023.

Presidential Decree No. 264. (1973). *An act creating a Philippine Amanah Bank*. 2 August.

Presidential Decree No. 542. (1974). *Amending PD No. 264, creating the Philippine Amanah Bank*. 20 August.

Republic Act 6848. (1990). An act providing for the 1989 Charter of the Al-Amanah Islamic Investment Bank of the Philippines, authorizing its Conduct of Islamic Banking Business, and Repealing for this Purpose Presidential Decree No. To Hundred and Sixty-Four as amended by Presidential Decree No. Five Hundred and Forty-Two (Creating the Philippine Amanah Bank). 26 January.

Republic Act No. 11439, *An Act Providing for the Regulation and Organization of Islamic Banks*. (2019). Official Gazette of the Republic of the Philippines. <https://www.officialgazette.gov.ph/2019/08/22/republic-act-no-11439/>

Roc, Bettina Faye V. (2014, April 20). Proposed law good for Al-Amanah. Retrieved from <http://www.bworldonline.com/content.php?section=Finance&title=proposed-law-good-for-al-amanah&id=86250> on May 23, 2023.

Sole, June. (2007). Introducing Islamic banks into conventional banking systems. Retrieved from <https://www.imf.org/external/pubs/ft/wp/2007/wp07175.pdf> on May 10, 2023.

Tanggol, Sukarno. (2008). Is there a Philippine public administration? the relevance of public administration to Muslim minorities. *Philippine Journal of Public Administration*, Vol. LII, Nos.24, pp.333-363.

Tetangco, Amando Jr. M. (2014, March 11). Islamic banking and finance in the Philippines: opportunities and challenges. Retrieved from <http://www.bsp.gov.ph/publications/speeches.asp?id=456> on May 24, 2023.

Uddin, Ad Akther. (2015, October 13). *Principles of Islamic finance: prohibition of riba, gharar and maysir*. Retrieved from [https://mpra.ub.uni-muenchen.de/67711/1/MPRA\\_paper\\_67711.pdf](https://mpra.ub.uni-muenchen.de/67711/1/MPRA_paper_67711.pdf) on May 6, 2023.

Undain, Abdurajak J. (2003). *Al-Amanah Islamic Investment Bank of the Philippines: its performance and contribution to the Muslim community* (Unpublished doctoral dissertation). Philippine School of Business Administration, Metro Manila.

Vernados, Angelo M. (2010). *Current issues in Islamic banking and finance: resilience and stability in the present system*. Singapore: World Scientific Publishing Co. Pte. Ltd.

Visser, Hans. (2009). *Islamic finance: principles and practice*. United Kingdom: Edward Elgar Publishing Limited.

Vizcano, Bernardo. (2014, July 28). *Philippine Islamic bank eyes new life after years of struggle*. Retrieved from <http://www.reuters.com/article/islamicfinance-philippines-idUSL6N0Q01KR20140728> on April 30, 2023.

\_\_\_\_\_. *Takaful Islamic Insurance*. Retrieved from [http://www.islamic-banking.com/prohibition\\_of\\_gharar\\_masir\\_riba.aspx](http://www.islamic-banking.com/prohibition_of_gharar_masir_riba.aspx) on May 20, 2023.

\_\_\_\_\_. *Company Overview of Al-Amanah Islamic Investment Bank of the Philippines*. Retrieved from <http://www.bloomberg.com/research/stocks/private/snapshot.asp?privcapId=22579790> on May 23, 2023.

\_\_\_\_\_. *The rationale of prohibition of Riba*. Retrieved from <http://www.financialislam.com/prohibition-of-riba-maysir-and-gharar.html> on May 20, 2023.

\_\_\_\_\_. *Important legal and regulatory developments in the Philippines*. Retrieved from <http://www.oxfordbusinessgroup.com/overview/important-legal-and-regulatory-developments-philippines> on May 20, 2023.

\_\_\_\_\_. *Introduction to Sukuk*. Retrieved from [http://www.ibrahimm.com/Islamic%20Banking/introduction to sukuk.pdf](http://www.ibrahimm.com/Islamic%20Banking/introduction%20to%20sukuk.pdf) on May 1, 2023.

\_\_\_\_\_. *Islamic finance –theory and practical use of sukuk bonds*. Retrieved from <http://www.chinaacc.com/upload/html/2013/06/27/lixingcun7353008ceff641cc9528d1e508ed0b1.pdf> on May 19, 2023.

\_\_\_\_\_. *Malaysian Authorities & Islamic Banking*. Retrieved from <https://www.islamicbanker.com/education/malaysian-authorities-islamic-banking> on May 15, 2023.