

## **Regulation of Islamic Banks and Allegations of Lax Control of Money-Laundering**

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### **Abstract**

This article examines the issue of whether Muslim countries are lax in their supervision of Islamic banks with regards to their international obligations under, for example the Financial Action Task Force (FATF) Recommendations, to combat money-laundering. It looks at the regulatory and supervisory framework of anti-money laundering in the two countries at the forefront of Islamic banking – Malaysia and Bahrain. The relevant money laundering legislation of both countries, as well as the guidelines issued by the respective central banks are examined. There is also a brief look at the issues of Islamic charities with accounts at Islamic banks as well as money transfer (emphasising that hawala is not part of Islamic banking). Any relevant resolutions by Fatwa Committees and whether or not there is any contradiction with money laundering legislation are also examined. The article concludes with establishing whether Malaysia and Bahrain meet international requirements for combating money laundering, particularly with regard to Islamic banks.

### **Introduction**

In recent years, particularly since the terrorist attacks in New York on 11 September 2001, the spotlight has been cast on the role of Islamic Banks in money laundering and terrorism financing. The main allegation, particularly from American law enforcement agencies and the US State Department,<sup>1</sup> is that regulations of Islamic banks is lax compared to that of conventional banks. The allegations are often of a blanket nature and do not distinguish between countries. It is notable that the Financial Action Task Force (FATF), which is the leading body for the combating of money laundering and terrorism financing, has not passed such type of comment in any of their reports.

The State Department said:

“Some terrorist groups may also use Islamic banks to move funds. Islamic banks operate within Islamic law, which prohibit the payment of interest and certain other activities. They have proliferated throughout Africa, Asia and the Middle East since the mid-1970s. Some of the largest Islamic financial institutions now operate investment houses in Europe and elsewhere. Many of these banks are not subject to a wide range of anti-money laundering regulations and controls normally imposed on secular commercial banks nor do they undergo the regulatory or supervisory

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<sup>1</sup> The USA's Home Ministry.

scrutiny by bank regulators via periodic bank examinations or inspections. While these banks may voluntarily comply with banking regulations, and in particular, anti-money laundering guidelines, there is often no control mechanism to assure such compliance or the implementation of updated anti-money laundering policies.”<sup>2</sup>

While it may be true that some countries may be lax in their regulation of Islamic banks,<sup>3</sup> this is certainly not the case in countries that intend to be global leaders in Islamic banking. As it is not possible to examine the regulation of Islamic banks in every Muslim country, this article will focus on the two leading countries in global Islamic banking – Malaysia and Bahrain.

The related issues of Islamic charities which are alleged to be engaged in terrorism financing having accounts at Islamic banks, and that of so-called ‘underground’ banking will also be touched on.

This Article intends to show that the allegations levelled at Islamic banks, vis-à-vis money laundering and terrorism financing, do not apply to Islamic banks operating in these two countries.

#### **Malaysia<sup>4</sup>**

Islamic banking is still a relatively small part of the overall banking sector.<sup>5</sup> 11 Islamic banks hold about 12.2% of total banking assets.<sup>6</sup>

Conventional banks (including those that also engage in Islamic banking)<sup>7</sup> are governed under the Banking and Financial Institutions Act 1989 (BAFIA). Islamic banks are governed by the Islamic Banking Act 1983 (IBA). Both types of bank come under the supervision of the Central Bank of Malaysia (CBM).<sup>8</sup>

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<sup>2</sup> International Narcotics Control Strategy Report, Bureau for International Narcotics and Law Enforcement Affairs, State Department, March 2004.

<sup>3</sup> If this is the case, the regulation of conventional banks is likely to be equally lax.

<sup>4</sup> Malaysia is not a member of FATF, but is a member of the Sydney, Australia-based Asia-Pacific Group on Money Laundering (APG), which exists to implement the FATF Recommendations in the region.

<sup>5</sup> Institutions licensed under BAFIA and the IBA.

<sup>6</sup> This compares with 22 conventional commercial banks. There are also 14 merchant/investment banks.

<sup>7</sup> Specifically, Section 124 of the Banking and Financial Institutions Act 1989 (BAFIA). These ‘Islamic Windows’ have been encouraged to convert to stand-alone Islamic banks that are subsidiaries of the parent conventional bank.

<sup>8</sup> Bank Negara Malaysia (BNM).

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With regards to money laundering, both types of banks are treated equally; Islamic banks are subject to the same legislation and regulations as conventional banks.<sup>9</sup>

All Malaysian banks have to adhere to the Anti Money Laundering and Anti Terrorism Financing Act 2001 (AMLATFA),<sup>10</sup> especially Part 4 that deals with compliance. The Central Bank has also issued guidelines, i.e. UPW/GP1[1]: Anti-Money Laundering and Counter Financing of Terrorism (AML/CFT) Sectoral Guidelines 1 for Banking and Financial Institutions.<sup>11</sup> In addition, all banks are also subject to the general guidelines for all reporting institutions' namely UPW/GP1: Standard Guidelines on Anti-Money Laundering and Counter Financing of Terrorism (AML/CFT) with effect for banks on 15 November 2006.

Islamic banks are listed in the First Schedule of AMLATFA as 'Reporting Institutions' and have been subject to the Act since it came into force on 15 January 2002. As such, under Part 4 of the Act, the compliance requirements for Islamic banks operating in Malaysia, whether local or foreign, are exactly the same as for conventional banks. Islamic banks must file 'Cash Transaction Reports'<sup>12</sup> (CTRs) and 'Suspicious Transaction Reports' (STRs) to the Central Bank's Financial Intelligence Unit in exactly the same way as conventional banks do.

UPW/GP1[1] does make slight reference to Islamic banking. In section 4 (Customer Due Diligence), it says:

“...Whether the transaction involves a new type of service or product or engages new technology, which alters the delivery mode and transaction

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<sup>9</sup> Part 1 of the First Schedule of AMLATFA puts institutions carrying-out Islamic banking business under the Islamic Banking Act 1983 as reporting institutions. Among the main functions of reporting institutions is to report any transactions which are above the threshold amount (cash transaction report) and anything suspicious (suspicious transaction report). It is beyond the scope of this Article to discuss about the details of AMLATFA as it has already been examined by the same author extensively elsewhere. See Norhashimah Mohd Yasin, *Legal Aspects of Money Laundering from the Common Law Perspective* (Kuala Lumpur: LexisNexis, 2007), see also Norhashimah Mohd Yasin, “An Examination of the Malaysian Anti-Money Laundering Act 2001 (AMLA)”, *Current Law Journal*, [2002] 6 CLJ, pp. i-xxiii.

<sup>10</sup> An Amendment Act passed in 2003, has among other things, renamed it as the Anti Money Laundering Act (AMLA). The Amendment came into force in March 2007. This amendment, along with amendments to the Penal Code, criminalizes various aspects of terrorism financing.

<sup>11</sup> This came into force on 15 November 2006, replacing BNM/GP9 issued in December 1993, and applies to any institution under the Banking and Financial Institutions Act 1989, the Development Financial Institutions Act 2002 and the Islamic Banking Act 1983. There are 7 other sectoral guidelines which have been issued by the CBM which are related to insurance & takaful industries, licensed money changers and/or non-bank remittance operators, non-bank affiliated charge & credit card issuers, licensed casinos, designated non-financial businesses and professions and licensed gaming outlets

<sup>12</sup> The threshold amount is RM50, 000 per day.

process, whereby, care must be taken to ensure that customer identification and verification requirements are adequately complied. To ensure that new conventional or Islamic products or services as well as delivery mode does not create an avenue for money laundering and terrorism financing activities, the reporting institution must ensure that prior to the launch of any new conventional or Islamic products/services or engagement of a new technology, controls to combat money laundering and terrorism financing practices are in place to address any risks these new products/services or technology may pose; and..."<sup>13</sup>

Unlike conventional banks that simply take the customer's deposit, use it for lending or investment, and pay interest on the principal amount, Islamic banking products work on the principles of partnership or involve buying and selling property, or even commodities. Although the act of buying and selling commodities could give scope for money laundering, this activity is done by the bank or the bank appointed customer as its purchasing agent. The customer must still deposit money with the bank in the normal way, and 'Customer Due Diligence', and any CTR or STR, will likewise be carried out in the normal way. This section of the Guidelines creates an obligation on the Islamic bank to ensure that new products, for example Commodity *Murabaha*,<sup>14</sup> cannot be used as a vehicle for money laundering.

Appendix 2 of UPW/GP1[1] lists the various general types of product offered by Islamic banks in Malaysia, i.e.:

Deposit	<i>Wadiah</i> (safekeeping) Mudharabah (profit sharing)
Investment	<i>Mudharabah</i> (profit sharing) <i>Bai' Bithaman Ajil</i> (deferred payment sale)
Retail Financing	<i>Bai' Bithaman Ajil</i> (deferred payment sale) <i>Mudharabah</i> (profit sharing) <i>Musharakah</i> (joint venture)
Hire Purchase	<i>Al-Ijarah Thumma al-Bai'</i> (hire purchase)
Credit Card-i	<i>Bai' al-Inah</i> (sell and buyback arrangement)

Appendix 2 briefly explains how each type of product works, but does not state what would constitute a 'red flag' so as to trigger suspicion. The reason appears to be that the various

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<sup>13</sup> In 4.1.1 General.

<sup>14</sup> As this product involves the buying and selling of commodities involving several parties, often in different countries, banks have to ensure the integrity of its staff and of the other parties such as commodity brokers.

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concepts involved already fall into the various categories listed in Appendix 3 (Examples of transactions that may trigger suspicion).<sup>15</sup>

A recent report by the Asia/Pacific Group (APG) on Money Laundering regarding Malaysia's compliance with the FATF Recommendations found no particular problems with the supervision of banks vis-à-vis money laundering.<sup>16</sup> The APG report does not make any observations regarding Islamic banks, so it can be assumed that Malaysian Islamic banks are regarded as being no different to conventional banks.

Malaysia has allowed offshore banking to take place on the island of Labuan, near Sabah, since 1990. This is known as the International Offshore Financial Centre (IOFC).

Banks are governed by the Offshore Banking Act 1990 (OBA). As there is no specific piece of legislation for offshore Islamic banks in Malaysia, the OBA is deemed to apply.

With regards to money laundering, Offshore Islamic and conventional banks are treated in exactly the same way by the Labuan Offshore Financial Services Authority (LOFSA).

As Labuan is part of Malaysia, AMLATFA applies to all institutions listed in Part 2 of Section 1 of the Act. LOFSA has also issued guidelines which are similar to those issued by the Central Bank (Bank Negara).

These are the 'Standard Guidelines on Anti-Money Laundering and Counter Financing of Terrorism (AML/CFL)' for all institutions and the 'Sectoral Guidelines 1 for Offshore Financial Institutions Licensed and Registered under Offshore Banking Act 1990.' Reporting institutions on Labuan, including Islamic ones, must report STRs to both the LOFSA Anti-Money Laundering Unit (AMLU) and the FIU of the Central Bank.

A 2004 report by the International Monetary Fund (IMF)<sup>17</sup> found no serious problems regarding supervision of offshore banks with regard to compliance with money laundering legislation and guidelines. As no attention was drawn to Islamic banks, this implies that the IMF does not regard offshore Islamic banking in Labuan as having a higher risk than offshore conventional banking.

### **Bahrain<sup>18</sup>**

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<sup>15</sup> Such as, cash transactions, International banking/Trade finance, Employees and agents, private banking and trust services, secured and unsecured lending, and Credit cards.

<sup>16</sup> In the APG Mutual Evaluation Report on Malaysia against the FATF, there are 40 Recommendations (2003) and 9 Special Recommendations, July 2007.

<sup>17</sup> International Monetary Fund (IMF), Labuan, Malaysia: Assessment of the Supervision and Regulation of the Financial Sector - Review of Financial Sector Regulation and Supervision, December 2004.

<sup>18</sup> Bahrain is not a member of FATF, but is a member of the Manama, Bahrain-based Middle East & North Africa Financial Action Task Force (MENAFATF), which exists to implement FATF Recommendations.

28 of Bahrain's licensed banks are classified as Islamic banks. Their assets make up about 4% of the banking system.

With respect to money laundering, all banks in Bahrain are governed by the 'Anti Money Laundering Law 2001.'<sup>19</sup> It is a very short Act compared to the Malaysian AMLAFTA, with only 13 Articles. As such, there is great dependence on rules and regulations.<sup>20</sup>

Two sets of money laundering rules<sup>21</sup> have been issued by the Central Bank of Bahrain,<sup>22</sup> one for conventional banks, the other for Islamic banks. Both sets of rules are, however, essentially the same.<sup>23</sup>

The money laundering rules relating to Islamic banks are in Part A of Volume 2. They are in the section called Business Standards under the Financial Crimes heading.

Despite conventional and Islamic banks coming under different Volumes of the Rulebook, the Central Bank treats all issues of compliance with those rules by Islamic banks, as well as money laundering legislation, regulations and orders, exactly the same as for conventional banks.

All banks, Islamic and conventional, must report CTRs and STRs to the Anti Money Laundering Unit of the Interior Ministry, as well as to the Central Bank's Compliance Unit.

A recent report by MENAFATF<sup>24</sup> has not found any particular problems with the supervision of banks. As no attention is drawn to Islamic banks, it can be presumed that in terms of their regulation, vis-à-vis money laundering, there is nothing to make them out as a greater risk than conventional banks.

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<sup>19</sup> Also known as the Decree Law No. (4) of 2001 With Respect to the Prevention and Prohibition of the Laundering of Money. The law was amended to cover terrorism financing by Law No. 54 of 2006 with Respect to amending Certain Provisions of Legislative Decree No. (4) of 2001 With Respect to Prohibition of and Combating Money Laundering.

<sup>20</sup> 'Ministerial order no. 7 of 2001 with respect to the obligations governing institutions concerning the prohibition and combating of money laundering' with effect December 2001, and 'BMA Regulation 6/2001 - Money Laundering Regulation' with effect October 2001 are still in force. The former Finance Ministry Order deals with issues such as record keeping, customer identification and reporting. The latter Central Bank Regulation deals with compliance by banks.

<sup>21</sup> The money laundering rules were issued in April 2005.

<sup>22</sup> It has recently renamed itself from the Bahrain Monetary Agency.

<sup>23</sup> This is because conventional and Islamic banks follow different rulebooks, Volume 1 and Volume 2 respectively, and this is done simply to fit into this format.

<sup>24</sup> Mutual Evaluation Report of the Kingdom of Bahrain on Anti-Money Laundering and Combating Financing of Terrorism, November 2006.

## Charities

Islamic charities, particularly in the United States as evidenced by the fact that several have been closed-down,<sup>25</sup> are frequently accused of fund-raising for terrorist purposes. Connected to this, Islamic banks are accused of not conducting sufficient CDD in regard to Islamic charities.

Malaysian charities, Islamic or otherwise, are not reporting institutions. Therefore banks, including Islamic banks must, under UPW/GP1,<sup>26</sup> carry out CDD on charities by requiring the relevant documents and to establish the identity of the office bearers and who is authorised to represent it. In addition, under UPW/GP1[1],<sup>27</sup> banks must verify the identity of at least two of the signatories, and must “closely scrutinise” the accounts “in order to detect discrepancies in the transactions and account activities.”

Malaysian charities must either be registered under the Registrar of Societies or as companies under the Companies Commission of Malaysia as the case may be.<sup>28</sup> If registered as a company, the bank will apply the CDD procedure for corporate customers as per section 5.3 of UPW/GP1.

The Bank Negara Standard Guidelines, UPW/GP1 (for all reporting institutions), state the following:

### 5.4. Clubs, Societies and Charities<sup>29</sup>

5.4.1. In conducting customer due diligence on a club, society or charity, the reporting institution should require the club, society or charity to furnish the relevant constituent documents (or other similar documents) including certificate of registration and the identification of the office bearer and authorisation for any person to represent the club, society or charity.

The Central Bank of Malaysia ‘Sectoral Guidelines’ for banks and other financial institutions, UPW/GP1[1] requires charities to be placed under extra scrutiny:

### 4.7. Clubs, Societies and Charities<sup>30</sup>

4.7.1. In addition to the customer due diligence measures on clubs, societies or charities, as provided in the Standard Guidelines on AML/CFT, the reporting institution should verify the identity of at least two signatories through the customer due diligence process. In the event that there is a change of signatories, care should be taken to ensure that the identities of at least two current signatories have been verified.

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<sup>25</sup> Such as, the Benevolence International Foundation, Global Relief Foundation, Holy Land Foundation and International Islamic Relief Organisation.

<sup>26</sup> S5.4.

<sup>27</sup> S4.7.

<sup>28</sup> Malaysian Islamic charities are also supervised by the Islamic Religious Councils of each state that they operate in.

<sup>29</sup> UPW/GP1.

<sup>30</sup> UPW/GP1[1].

4.7.2. The reporting institution should also closely scrutinise the accounts of clubs, societies or charities in order to detect discrepancies in the transactions and account activities.

In Bahrain, a bank must not provide any services to a charity unless it has authorization from the relevant Ministry. Banks must also monitor transactions by charities more strictly. The banks must report to the Bahrain Central Bank any transaction by a charity exceeding 3,000 Dinar, and give an increased level of monitoring to the account as required by the relevant section of Volume 2 for Islamic banks:

**FC-1.6 Enhanced Due Diligence: Charities, Clubs and Other Societies.**

FC-1.6.1 Financial services must not be provided to charitable funds and religious, sporting, social, cooperative and professional societies, before an original certificate authenticated by the relevant Ministry confirming the identities of those purporting to act on their behalf (and authorising them to obtain the said service) has been obtained. For Clubs and Societies registered with the General Organisation for Youth and Sports (GOYS), Islamic bank licensees must contact GOYS to clarify whether the account may be opened in accordance with the rules of GOYS.

FC-1.6.2 Islamic bank licensees are reminded that clubs and societies registered with GOYS may only have one account with banks in Bahrain.

FC-1.6.3 Charities should be subject to enhanced transaction monitoring by banks. Islamic bank licensees should develop a profile of anticipated account activity (in terms of payee countries and recipient organisations in particular).

FC-1.6.4 Islamic bank licensees must report all payments and transfers of BD3,000 (or equivalent in foreign currencies) and above, from accounts held by charities registered in Bahrain. The report must be submitted to the BMA's Compliance Unit (see FC-5.3 for contact address), giving details of the amount transferred, account name, number and beneficiary name account and bank details. Islamic bank licensees must ensure that such transfers are in accordance with the spending plans of the charity (in terms of amount, recipient and country).<sup>31</sup>

Charities come under the supervision of the Directorate of Development and Local Societies, which is part of the Ministry of Social Affairs (MSA). Ministerial Order 3/2004 makes it a requirement that any payment by a charity of more than BD 1,000 must pass through a financial institution, and so will be subject to reporting requirements.<sup>32</sup> Furthermore, any payment of greater than BD 3,000 to a foreign jurisdiction needs MSD permission,<sup>33</sup> which ties in with FC-1.6.4 for Islamic banks.

***Hawala and Money Transfer***

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<sup>31</sup> From Central Bank of Bahrain, Volume 2 (Islamic Banking), Part A, Business Standards, Financial Crimes, Customer Due Diligence.

<sup>32</sup> Article 7.

<sup>33</sup> Article 85.

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It has to be noted that '*hawala*' or '*hundi*,' a traditional informal means of money transfer or remittance system in South Asia and the Middle East, is not an official part of Islamic banking, even though the authorities in several non-Muslim countries tend to link them together.

*Hawala* is an alternative parallel remittance system. It exists and operates outside or parallel the traditional banking system. It was developed in India before the introduction of Western banking system. This system is also referred to as "underground banking". The components of *hawala* that distinguish it from other remittance system are trust and the extension use of connections such as family relationships or regional affiliations. Unlike traditional banking, *hawala* makes minimal use of any kind of negotiable instruments like cheques, bank drafts etc.

There appear to be no references as to whether *hawala* exists or not in Malaysia,<sup>34</sup> but anyone who did engage in this activity would be committing a number of offences which are all predicate offences under Schedule 2 of AMLATFA. This would include illegal deposit taking under s25 of BAFIA and carrying out banking or money-broking business without a license under s4 of BAFIA or subsection 3(1) of the IBA.

For legal funds remittance by 'wire transfer' a Malaysian Islamic bank, like a conventional bank, must carry out customer due diligence for any transaction exceeding RM3,000.<sup>35</sup>

In Bahrain, according to a recent MENAFATF<sup>36</sup> report, *hawala* does not exist to any great extent:

In reality, alternative or "underground" transfer systems do not appear to be a significant element of the financial landscape. The Authorized Money Transferors provide extremely cheap and efficient service, including "door to door" service. However, it is worth noting that the BMA is currently following up on two reported *hawala* situations, both very small operations.

### SAC Resolution on Source of Funds

It should be noted that there seems to be an unusual conflict between Malaysian money laundering legislation and regulations and a Resolution issued by the *Shari'ah* Advisory Council (SAC)<sup>37</sup> of the Central Bank of Malaysia. In response to the question:

"In relation to Islamic banking deposit, is it permissible in *Shari'ah* for the Islamic banking institution to accept every deposit without the need to screen its source?"

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<sup>34</sup> As various international anti-money laundering bodies do not mention *hawala* in respect of money laundering in Malaysia, it can be assumed that it does not exist to any great extent. This activity would, in any case, be illegal.

<sup>35</sup> UPW/GP1[1] 4.1.4 and 4.4.1-9. The CDD requirements are given in s5 of GPW/GP1.

<sup>36</sup> The MENAFATF Mutual Evaluation Report of the Kingdom of Bahrain on Anti-Money Laundering and Combating Financing of Terrorism, 2006.

<sup>37</sup> Section 16B of the Central Bank of Malaysia Act 1958, in its 2003 Amendment Act, has provided that SAC is the authority for the ascertainment of Islamic law for the purposes of Islamic banking business, *takaful* business, Islamic financial business, Islamic development financial business, or any other business which is based on *Shari'ah* principles and is supervised and regulated by the Central Bank.

The SAC issued the following Resolution:

“The Council in its 58<sup>th</sup> meeting held on 27<sup>th</sup> April 2006/28<sup>th</sup> *Rabiul Awal* 1427 resolved that Islamic banking institutions may, generally, accept any application for placement of deposit or investment fund from individual or corporate customers *without the need to investigate the status of the sources of fund*; either *Shari’ah* compliant, non-*Shari’ah* compliant or a mixture between the two.”<sup>38</sup>

If this was followed literally there is a risk that it could be contrary to the money laundering regulations, as there is an obligation to know something about from where a customer derives the deposited funds.<sup>39</sup> However, money laundering legislation and regulations do apply to all banks, including Islamic banks and other Islamic financial institutions. It could be argued that this Resolution is mainly referring to funds which are from an unlawful source (*haram*) which may not be illegal under Malaysian laws such as AMLATFA.

The Shari’ah Review Bureau (SRB)<sup>40</sup> in Bahrain does not appear to have such a resolution.

This issue demonstrates that *Shari’ah* advisors do need to be aware that Islamic banks are subject to the same anti-money laundering requirements as conventional banks.

## Conclusion

As can be seen, the statements by sections of the American Government, which seem to imply that Islamic banking is poorly regulated, cannot be taken to apply to all Islamic banks in all countries. This situation may well be true in some countries but does not apply to either Malaysia or Bahrain. In these two countries, Islamic banks are subject to the same strict supervision as conventional banks with regard to money laundering and terrorism financing.

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<sup>38</sup> Central Bank of Malaysia Kuala Lumpur, *Shari’ah* Resolutions in Islamic Finance, 2007 at p. 46.

<sup>39</sup> There is actually a *hadith* (Prophetic tradition) that states the following: Narrated by Nasa’i “There will be a time when one will not be concerned about the source of the property, whether legal or illegal.” It is not the intention of this article to dispute the above SAC resolution and to explore the Islamic aspects of money laundering as this requires a separate article. Suffice to state here that the Islamic concept of *Shari’ah*-compliant funds is actually wider than that illegally obtained as per AMLA under its various predicate offences in Schedule 2. In other words, lawfully or legally obtained funds/proceeds under AMLA might not necessarily be *Shari’ah*-compliant as they might be derived from interest-based proceeds or from licensed gaming outlets. Briefly, under Islamic principles, the funds or the proceeds of the transaction or activity must be free from the elements of interest (*riba*), gambling (*maysir*), uncertainty (*gharar*) and un-Islamic elements such as those which are alcohol and pork related.

<sup>40</sup> The SRB is part of the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI), based in Bahrain.

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The United States Bureau for International Narcotics and Law Enforcement Affairs, in its 2007 report, can find no problems with Islamic banking in Malaysia, vis-à-vis conventional banking:

Malaysia's Islamic finance sector is subject to the same strict supervision to combat financial crime as the commercial banks. A combination of legacy exchange controls imposed after the 1997-98 Asian financial crisis in addition to robust regulation and supervision by BNM makes the Islamic financial sector as unattractive to financial criminals as is the conventional financial sector.

In the same report the Bureau finds the same situation for Bahrain:

Given the large share of such institutions in Bahrain's banking community, the BMA has developed a framework for regulating and supervising the Islamic banking sector, applying regulations and supervision as it does with respect to conventional banks.

Due to the strict adherence to the FATF Recommendations, Malaysia and Bahrain are well-placed to continue as leaders in Islamic banking, as any doubts about the integrity of their Islamic banks with regard to money laundering and terrorism financing do not stand up to scrutiny.