
Bank Islam Brunei Darussalam (BIBD) as a Pillar of National Sharia Finance: A Study of Its Historical Development, Operational Framework, and Role in the Global Financial System

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Submitted: 2026-01-19 ; Accepted: 2026-02-02 ; Published: 2026-02-28

Abstract

This study examines the strategic role of Bank Islam Brunei Darussalam (BIBD) as the central pillar of Islamic finance in Brunei Darussalam. The country's financial system is strongly supported by BIBD as its leading Islamic banking institution. The research aims to analyze BIBD's historical development, operational management, Islamic banking products, and its contribution to both the national economy and the global financial system. This study employs a qualitative descriptive approach, utilizing secondary data from academic literature, institutional reports, and official publications related to BIBD. The findings reveal that BIBD possesses a strong institutional foundation, supported by integrated governance and strict adherence to Sharia principles. Its banking products emphasize fairness, transparency, and risk-sharing, which contribute to maintaining public trust. Despite its dominance in the domestic market, BIBD faces several global challenges, including increasing international competition, rapid digital transformation, and the need for harmonization of Sharia standards across jurisdictions.

Keywords: *Bank Islam Brunei Darussalam, Islamic Banking, Global Financial System*

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INTRODUCTION

The growing demand for a financial system that is stable, ethical, and grounded in fairness has accelerated the development of Islamic banking within the global financial landscape. In countries with strong Islamic identities, Islamic banking functions not only as a financial intermediary but also as a strategic instrument for national economic development.

Brunei Darussalam represents a unique case where Sharia principles are deeply embedded in both financial governance and economic policy. Within this framework, Bank Islam Brunei Darussalam (BIBD) plays a pivotal role as the largest and most influential Islamic financial institution in the country.

BIBD was established as part of a national effort to consolidate Islamic banking institutions, aiming to enhance efficiency, stability, and competitiveness within the financial sector. Since its formation, BIBD has achieved significant growth, reflected in its extensive service network, large customer base, and dominant market share. According to its official reports, BIBD offers a wide range of Sharia-compliant services, including retail banking, corporate financing, treasury operations, and support for small and medium-sized enterprises (SMEs).

Historically, the development of BIBD is closely linked to Brunei Darussalam's adoption of Islam as a national ideology. The country's regulatory framework emphasizes comprehensive Sharia compliance, particularly in financial institutions. Previous studies indicate that Brunei's Islamic banking system remains relatively stable due to strong regulatory oversight, high liquidity levels, and consistent government commitment to maintaining financial stability.

Operationally, BIBD integrates modern banking practices with a rigorous Sharia supervisory framework through its Sharia Advisory Board. The bank emphasizes prudential principles, good corporate governance, and continuous innovation in Sharia-based financial products. Empirical evidence suggests that factors such as Sharia compliance, effective management systems, and strategic marketing significantly influence customer loyalty and overall performance.

In the context of increasing global financial integration, BIBD faces both opportunities and challenges. These include digital transformation, global risk management, and the harmonization of Sharia standards. Despite operating within a relatively small domestic market, BIBD holds the potential to contribute to the global Islamic financial system through innovation and strong governance practices.

RESEARCH METHODOLOGY

This study adopts a qualitative descriptive approach based on an extensive literature review. Relevant sources were selected based on their credibility, relevance, and contribution to the topic of Islamic banking and BIBD.

The analysis focuses on three main aspects:

1. The historical development of BIBD
2. Its operational management and Sharia compliance framework
3. Its role within the global Islamic financial system

Data were analyzed using a descriptive-analytical method, involving systematic interpretation of documents and literature. Rather than producing statistical generalizations, this

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approach aims to provide an in-depth conceptual understanding of BIBD's strategic role as a pillar of national Islamic finance.

RESULTS AND DISCUSSION

In addition to serving as the main representative of Islamic banking practices in Brunei Darussalam, Bank Islam Brunei Darussalam (BIBD) has a very important position in the country's financial structure. BIBD is not only considered a financial business entity, but it is also considered a strategic institution linked to the country's goal of building an economic system based on Islamic values. This position makes it a key pillar in the implementation of Islamic financial intermediation and an instrument for national economic policy. From a historical perspective, BIBD was established as a result of the national Islamic banking consolidation policy with the aim of improving the stability and efficiency of the financial sector. In 2006, the Islamic Bank of Brunei Berhad and the Islamic Development Bank of Brunei merged to form BIBD. This is done to build a strong and integrated Islamic banking institution that can meet the financial needs of the community as a whole. This merger process shows the government's plan to break up Islamic financial organizations and increase the strength of the national banking system (Bank Islam Brunei Darussalam, 2023). Throughout history, this policy is in line with the characteristics of Brunei Darussalam, namely the establishment of Islam as a national ideology and the implementation of economic and financial policies in accordance with it.

The development of BIBD after the merger shows continuous institutional change. The bank not only enhances its product portfolio and service network, but also improves its internal governance and management. BIBD's annual report demonstrates systematic efforts to improve organizational structure, enhance human resource capabilities, and support operations through the use of contemporary banking technology. This transformation shows that the history of BIBD is not stagnant; rather, it changes according to the demands of the national economy and the changes of the financial industry around the world. BIBD applies contemporary banking methods as well as strict sharia supervision in operational management. The prudential principle, or prudential banking, encourages bank operations through the strengthening of good corporate governance and structured risk management. All banking operations, from the manufacture of goods to financing policies, must be in accordance with sharia principles because there is a Sharia Advisory Board. This shows that sharia compliance is not only considered a normative component, but also an important part of the bank's operating procedures.

With Brunei Darussalam's small but stable domestic market, BIBD's risk management tends to be conservative. To anticipate macroeconomic risks, banks are more cautious when adding financing and maintaining high levels of liquidity. According to the IMF (2022), Brunei's economic stability supported by income from the energy sector allows banks to operate well. However, it also forces banks to maintain management standards so as not to rely too much on favorable macro circumstances. By combining sharia principles and prudent conventional banking management practices, BIBD demonstrates good managerial adaptability in this context. BIBD offers banking products and strategies that reflect the characteristics of contemporary Islamic banking. Various types of deposits, financing, and services based on sharia contracts, such as murabahah, ijarah, musharakah, and wakalah, are available at this bank. These products are designed to meet the needs of people from a variety of demographics, from individual consumers to households as well as small and medium-sized businesses. Very

different from interest-based banking practices, the financing strategies used emphasize the principles of fairness, transparency, and risk sharing.

According to BIBD's product portfolio analysis, the bank's dominance in the domestic market increases customer confidence in sharia products. Social trust is essential to keep third-party funds stable and the bank's sustainability. However, market dominance results in difficulties in product innovation. According to the Islamic banking literature, Islamic banks must continue to innovate to avoid being trapped in standard products that are not competitive in the global market (Ascarya, 2020). Therefore, BIBD must focus on the development of contemporary Islamic digital and financial products. BIBD serves as the main channel for Islamic financial intermediation that supports Brunei Darussalam's economic activities in the context of Islamic banking. The bank provides financing to strategic sectors, supports the growth of small and medium enterprises (MSMEs), and increases people's financial inclusion. BIBD is an important institution to maintain the stability of the national financial system due to its extensive service network and large market share. According to international agency reports, Brunei's banking system has a high liquidity and low systemic risk. The main function of BIBD as a state Islamic bank also contributes to this (IMF, 2022).

At a broader level, the BIBD function also serves as a representation of the global financial system. The national Islamic banking model is represented by BIBD in countries with small but stable and high-income economies. How Islamic banks can operate well in the contemporary state system can be seen from the governance practices, sharia compliance, and operational stability of BIBD. BIBD is still relevant in global discussions on the development of the Islamic financial system, although it is still limited to cross-border transactions. In the global financial system, BIBD has many opportunities due to the development of digital finance, regional cooperation, and harmonization of Islamic finance standards. With the growth of the global Islamic finance industry, national Islamic banks have the opportunity to join international networks through cross-border collaboration and new product innovation. In addition, the digitalization of Islamic banking offers strategic opportunities to improve the efficiency and reach of services without the need for costly physical expansion (World Bank, 2021).

However, BIBD also faces a number of important problems. Banks should seek a cautious diversification strategy as organic growth opportunities are limited by the small size of the domestic market. In addition, differences in sharia standards and interpretations between countries hinder international trade in products. To be competitive in the increasingly complex global financial market, it is necessary to improve the quality of human resources, especially in the fields of Islamic finance and financial technology. With the increasing digitalization of banking services, concerns related to technology and cybersecurity are also increasing. Overall, the findings and discussions show that Bank Islam Brunei Darussalam is the country's Islamic finance pillar with a strong historical foundation, operational management, and governance. This role has really improved Brunei Darussalam's economic stability and strengthened the country's Islamic economic identity. However, to increase relevance and competitiveness in the global financial system, BIBD must continue to change through product innovation, digital transformation, and institutional capacity building. With the right strategy, BIBD has the potential to become a nationally strong and relevant national Islamic banking model in the dynamics of global Islamic finance.

CONCLUSION

As an Islamic banking institution, Bank Islam Brunei Darussalam (BIBD) has a strategic and important position in the financial system of Brunei Darussalam, as shown by the findings and discussions that have been discussed. BIBD is formed through a process consolidation of national Islamic banking and demonstrate the government's commitment to building a stable, efficient, and Islamic financial system. Since its inception, it has demonstrated the ability to adapt to economic changes and developments in the Islamic finance industry.

By integrating sharia compliance into the decision-making process, BIBD implements strict banking governance from an operational management perspective. The bank remains stable due to the existence of a Sharia Advisory Board and prudential principles and conservative risk management. This practice shows that the integration between sharia principles and contemporary banking standards can run effectively and harmoniously to support the sustainability of Islamic financial institutions.

BIBD's focus on fairness, transparency, and risk-sharing is characteristic of Islamic banking, and BIBD's dominance in the domestic market demonstrates the level of public trust in the Islamic banking system. However, to remain competitive and relevant in the face of changing customer needs as well as the development of the global financial industry, technology-based product and service innovation is also required.

BIBD serves as the main pillar of Islamic financial intermediation that supports the stability of Brunei Darussalam's financial system and economic activities in the context of its responsibilities as a state. BIBD serves as a tangible representation of the application of Islamic economic principles in state financial policies and practices, so that this effort includes ideological and economic aspects. Although BIBD's expansion space is still limited at the global level, the bank has the potential to help the development of international Islamic finance through standardization, digitalization, and regional cooperation

Bank Islam Brunei Darussalam (BIBD) plays a crucial and strategic role in the financial system of Brunei Darussalam. Established through the consolidation of national Islamic banking institutions, BIBD reflects the government's commitment to building a stable, efficient, and Sharia-compliant financial system.

From an operational perspective, BIBD successfully integrates strict Sharia governance with modern banking practices. The presence of a Sharia Advisory Board, combined with prudent risk management and strong corporate governance, ensures institutional stability and sustainability. BIBD's emphasis on fairness, transparency, and risk-sharing has strengthened public trust and reinforced its dominant position in the domestic market. However, to remain competitive in an increasingly dynamic global financial environment, continuous innovation—particularly in digital financial services is essential.

At the national level, BIBD serves as the primary channel for Islamic financial intermediation, supporting economic growth and financial stability. At the global level, it represents a viable model of Islamic banking within a small but stable and high-income economy. Moving forward, BIBD must enhance its global relevance through digital transformation, product innovation, and international collaboration. With the right strategic direction, BIBD has the potential to emerge as a leading model of Islamic banking in the global financial system.

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