

# ISLAMIC BANKING SYSTEM: WHERE IT STANDS GLOBALLY

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**Abstract:** *Islamic banking refers to that system of banking which is in consistency with the principles of Islamic law. In this system of banking, earning of interest is prohibited. Islamic banks are not only for Muslim customers. They provide service to both Muslims and non-Muslims customers. The only difference between the conventional banking system and the Islamic banking system is in the principles on which they function. Islamic banking is not confined to Muslim countries only and has gained importance globally and is currently the fastest growing sector. Many non-Muslim countries have also undertaken Islamic banking as an alternative banking system. It is now considered an important tool for accelerating inclusive economic growth. This paper reviews the status of Islamic banking system worldwide. It is seen that Islamic banking is growing at a fast pace not only in the Middle East countries but also in the Asian, African and the Western countries.*

**Key Words:** *Islamic finance, Islamic banking, Interest free banking, Globalization.*

## 1. INTRODUCTION:

Islamic banking refers to that system of banking which is in consistency with the principles of Islamic law (*Shariah*). In this system of banking, earning of interest (*Riba*) has been prohibited. As per the *Shariah* law, *Riba* means any compensation given without proper consideration. This prohibition is there because in Islam, the concept of interest is not there in Islam. According to Islam, Interest is a nothing but a curse in the society. It leads to accumulation of money around a small number of people and results in creation of monopolies, selfishness, oppression, greed, injustice, etc. An Islamic bank has a capital structure which is mainly based on equity. Any investment deposits which are made with the bank are based on profit and loss sharing principle and not on interest. Instead of the Basel Committee on Banking Supervision (BCBS), Islamic banks are supervised and regulated by the standards which have been prescribed by the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI). It should be noted that only interest is prohibited but the equity-based returns on investment profit-loss sharing are allowed. Islamic finance covers several types of financial contracts and instruments that vary in equity and profit-loss sharing. There are different modes of financing under Islamic Banking such as *murabaha* contracts (where the seller sells the product and informs the buyer about the profit amount which the seller has kept on that product and the buyer agrees to pay that profit amount to the seller), *mudaraba* contracts (where one partner provides the money and the other partner contributes expertise), *mushakara* contracts (in which investment, labour, expertise, risk are shared among all parties) and *ijara* contracts (where the object is given on a lease contract for a specified time period). These are strictly based on the profit-loss sharing principle. It should be mentioned that Islamic banks are not only for Muslim customers. They provide service to both Muslims and non-Muslims customers. The only difference between the conventional banking system and the Islamic banking system is in their mechanism and the principles on which they function. Islamic banking is not confined to Muslim countries only. Islamic banking has gained importance globally and many non-Muslim countries have also undertaken Islamic banking as an alternative banking system.

## 2 OBJECTIVE OF THE STUDY:

The objective of this paper is to study the present status of Islamic banking system Worldwide.

## 3. METHODOLOGY:

This paper is of conceptual nature and is solely based on information from secondary sources. Secondary sources here include various journals, e-papers and other relevant data collected from certain authentic websites.

## 4. STATUS OF ISLAMIC BANKING IN THE MIDDLE EAST:

Islamic banking and finance is mainly concentrated in the Middle East. They are the biggest contributors to the growth of Islamic investments. Their main objective is to get strong hold over the indigenous oil-wealth. Islamic banking industry has a strong regional support in this region and a huge number of Conventional banks have converted into Islamic banks and the ones which did not convert have adopted it partially in the Middle Eastern markets.

#### 4.1. BAHRAIN

One of the major global leaders in Islamic banking industry is Bahrain. The first Islamic bank named 'Bahrain Islamic Bank' was established in the Bahrain in 1978. It has the highest number of financial institutions of Islamic nature and also has the highest contribution in the growth of Islamic assets in the Middle East. The Islamic banking operations in Bahrain are undertaken by full-fledged commercial banks and investments banks. Bahrain apart from being a leader in Islamic banking is also a leader in Islamic Insurance (*Takaful*) industry of the Islamic finance world. Presently, there are seven Islamic insurance (*Takaful*) companies. Bahrain is also at the front foot in the Islamic securities (*sukuk*) market, which includes short-term government *sukuk* as well as short-term leasing securities. The Islamic banking total assets rose from US\$1.9 billion in the year 2000 to US\$25.4 billion in the year 2012. Even the contribution of Islamic assets to total banking assets increased from 1.8% in 2000 to 29.3% in 2015. The gain in market share is expected to cross 4% by 2020 as against 1.6% in 2015. The country has assumed a key role in developing the Islamic financial market in the areas that include asset securitization, syndicated financing and credit, collective investment schemes, Mutual Funds, *Sukuk*, *Takaful*, etc. The Central Bank of Bahrain has installed a reporting framework in compliance with the Islamic principles which covers areas such as capital adequacy, risk management and disclosure requirements. It has also developed a network of Islamic banking research and regulatory institutions which are making significant efforts to strengthen the base of Islamic banking and finance and make it more dynamic and competitive in local as well as in the international financial markets.

#### 4.2. KUWAIT

Kuwait is said to be the third highest contributors in Islamic banking assets. It held Islamic assets worth US\$98 billion in the year 2015. It is estimated that Islamic assets in Kuwait will reach up to US\$154 billion by 2020 as per the world competitive report by Ernst & Young, 2016. Islamic banking in Kuwait started way back in 1977. In Kuwait both the system of banking co-exists together. The National Bank of Kuwait was a full-fledged Islamic Bank and there were some other conventional banks which provided a wide range of Islamic financial products and services through an Islamic window. Later in the year 2006, two new Islamic banks 'Jaber Islamic bank' and 'Boubyan Bank' were established. Simultaneously, the Kuwait Retail Estate Bank transformed itself into a full-fledged Bank based on Islamic principles. In the year 2003, the Central Bank of Kuwait introduced the Islamic banking laws and enforced highly transparent Islamic banking and finance in the country which were properly regulated. For this full guidance and supervision was provided to the Islamic Shariah supervisory boards of the Islamic banks. Alongside Islamic finance, Islamic insurance and Islamic bonds also gained popularity at a rapid pace in Kuwait. Due to the increasing demand for *Sukuk* in the corporate and real estate sectors, the government has developed proper regulatory framework for *Sukuk* market. The growth of Islamic assets has been at 8% from 2011 to 2014. In the year 2014, the growth was highest for the Islamic banks at 13% and the opposite was true for the conventional banking assets which stood at 4% only. Globally, Kuwait contributes 2.2% of the total Islamic market. It was declining till 2013 but made a strong comeback in the year 2014 and is the second highest contributor in the global Islamic market. Kuwait contributes 10.1% of the global Islamic banking assets while at the country level, out of the total national banking assets, the Islamic banks contributes 45.2% and the remaining is contributed by the conventional banking. It shows that Islamic banking system has penetrated in the banking system of Kuwait.

#### 4.3. QATAR

In the Middle East, another major leader in Islamic banking and finance affairs is the country Qatar. In 1983, the first Islamic Bank was established in Qatar and named 'Qatar Islamic Bank'. In the later years, many other Islamic banks came up such as 'Qatar International Islamic Bank', 'Doha Islamic Bank', 'Qatar International Islamic bank' and 'Al Rayan Bank' with the Islamic banks Qatar also has other Islamic financial institutions which provide Islamic products and services around the country. Recently, a big step was taken in order to meet the financing need of the individuals and corporate, a joint Islamic entity was formed named as 'Tasheelat Company' by the Qatar International Insurance Islamic Company and Qatar International Islamic bank. As per the report by Ernst and Young 2016, Islamic banking contributes 25.8% of the total banking assets nationally and the assets contributed by Qatar stands at 8.1% in the global Islamic assets. Islamic banking activities have registered a commendable growth of 2.2% in the financial market in the year 2014 and have been growing ever since. The growth of the Islamic banking assets was 20% as compared to conventional banking which stood at 7%. It held Islamic assets worth US\$83 billion in the year 2015 and is estimated that Islamic assets in Qatar would reach up to US\$179 billion by 2020. Qatar is one of the leaders in Islamic insurance and Islamic bonds industry. Doha Securities Market has been playing an important role in promoting Islamic capital and market in the country. Qatar is the richest region of the Arabian Gulf due to a huge inflow of oil-wealth in its economy over the years. The government of Qatar has taken up various infrastructure and development projects under the Islamic finance system worth billions in the country. Islamic financial institutions play a very effective role in the overall economic growth and development of Qatar.

#### 4.4. SAUDI ARABIA

In Saudi Arabia, Islamic banking laws do not exist separately. Given this fact also, Islamic banking has come a long way in this country and as per the report published by the Fitch Ratings in February, 2016, Islamic banking and finance industry can now be considered as a developed industry in Saudi Arabia and is one of the fastest growing banking industry throughout the World. It represents about 65% of total bank financing. Islamic banks contribute about 38% while 28% is contributed by the Islamic windows of conventional banks. In Saudi Arabia, there are a total of 12 licensed commercial banks of which 4 are fully Islamic Law (*shariah*) compliant while the others are a mix of sharia-compliant banking and conventional banking. The four fully Islamic Law (*shariah*) compliant banks are 'Al Rajhi Bank', 'Al Jazeera Bank' Al-Bilad Bank' and 'Alinma Bank'. Al Rajhi Bank' is the largest Islamic bank in Saudi Arabia, and is also the largest Islamic bank internationally with assets of US\$87bn at end of 2015. National Commercial Bank (NCB) has aimed to convert to a fully sharia-compliant. Once it becomes fully shariah-compliant, it would replace 'Al Rajhi Bank' as the world's largest Islamic bank. The shariah-compliant banks and the conventional banks are regulated by the Saudi Arabian Monetary Agency (SAMA) in the same way and no preference is given towards Islamic products and neither is any additional support given to the Islamic banks. As per the World competitive Report by Ernst and Young, Islamic banking operations capture 64% of the total market share in Saudi Arabia. Nationally, the assets contributed by the shariah-compliant banking cover about 51.2% and internationally it contributes 33%. The growth rate is maintained at around 2.4% every year which is the highest growth rate around the world. The Islamic banking asset has been growing at 18% as against conventional banking which is growing at 7%. It is estimated that by 2020, total assets held by Saudi Arabia would be US\$ 766bn. Apart from Shariah-compliant banking, Islamic insurance and Islamic Stock and Capital market are also growing at a tremendous pace. The first Islamic Insurance (*Takaful*) company, 'SAAB Takaful Company' has emerged as a big player in the Saudi Arabian insurance market. There is a huge scope for growth of insurance services in Saudi Arabia. It is estimated that Islamic insurance services will secure 15% growth rate annually over the next 5 years in the country. Banks and financial institutions are increasing their reliance on Islamic bonds (*Sukuk*) to meet their financing needs of the real estate sector in Saudi Arabia which has led to a growth in demand for the Shariah-compliant stocks, In the year 2006, the first Islamic private equity fund, namely, 'AlTawfeek' was launched in the Saudi financial market and it has grown tremendously over the years and has supported the growth of the banking industry in Saudi Arabia to a great extent.

#### 4.5. UNITED ARABIAN EMIRATES

In the year 1975 Islamic banking was started in the UAE with the establishment of Dubai Islamic Bank (DIB). Dubai Islamic Bank currently has 64 branches around the country. Other than this, there are 4 fully fledged Islamic banks in the UAE, namely, 'Sharjah Islamic Bank', 'Emirates Islamic Bank', 'Abu Dhabi Islamic Bank' and 'Dubai Bank'. Plus there are conventional banks too which offer Islamic products either through an Islamic window or subsidiary. As per the world Islamic banking competitive report, 2016, presently the Islamic banking assets contribute 21.6% of the total banking industry in the UAE and globally it contributes 15.4% to the total international Islamic banking industry. Over the years, Islamic Banking has grown at a tremendous pace in the UAE. It is estimated that by 2020, total assets held by the United Arab Emirates would be US\$250bn. Many conventional financial institutions have converted into Islamic banks either partially or completely such as National Bank of Sharjah transformed into Sharjah Islamic Bank and Middle East Bank transformed into Emirates Islamic Bank. The demand for Islamic insurance and re-insurance (*Takaful*) has also increased in the UAE. Islamic bonds (*Sukuk*) have become the backbone of corporate financing in the UAE. The UAE's real estate sector is largely financed by Islamic mortgage and Islamic bonds (*Sukuk*) issues. Dubai Islamic Bank is the biggest dealer of the Islamic bonds (*Sukuk*) market globally. The demand for Islamic retail finance and private equity funds has gradually increased in the UAE over the time. The Dubai International Financial Centre (DIFC) and Dubai International Financial Exchange (DIFX) have been encouraging trading in Islamic securities, equities, funds and other derivative instruments.

#### 5. STATUS OF ISLAMIC BANKING IN SOUTH ASIA

The Muslim population in South Asia is majorly found in 5 countries i.e., Afghanistan, Pakistan, India, Maldives and Bangladesh. The South Asia region has an immense scope of becoming a hot spot for Islamic banking and finance. The South Asian economies have been growing at a great pace over the years. This has attracted many of the wealthy investors and also the Islamic financial institutions from the Middle East to want to undertake business and investment activities in these economies.

#### 5.1. AFGHANISTAN

Islamic banking was adopted in Afghanistan in the year 2011. There were 8 banks in the country which provided Islamic banking services, namely, 'Bank Alfalah Limited', 'Ghazanfar Bank', 'Maiwand Bank', 'Afghan United Bank', 'New Kabul Bank', 'Bank e Millie', 'Azizi Bank' and 'First Dawood Islamic Bank'. It was seen that

only 11% of the total population in the country was involved with the banking services and it was noted that for the inclusive growth of the country Islamic banking needed to be promoted. To resolve this issue, in the year 2015, a new law was passed as per which all banks would have to provide Islamic banking services in the country. Even though Islamic banking is in the initial years in the country, it is growing consistently. As per a survey, it was found out that the customers were lacking faith on the Islamic services being offered and thus the government took up awareness campaigns in the country which boosted the Islamic banking sector in the country to a great extent. Though it is not a major contributor to the Global Islamic banking assets now but once Islamic banking sector holds its ground in the country, the Afghan economy can grow and develop at a higher pace and inclusively.

## **5.2. PAKISTAN**

In Pakistan, Islamic banking was taken up for the first time in 1980. But even after the efforts being made for about 22 years, Islamic banking could not be adopted properly in the country. The second effort to adopt Islamic banking in the country was made in 2002 this time under the dual banking system. Currently there are 13 full-fledged Islamic banks working across the country. They include 'Al Baraka Bank', 'Meezan Bank Limited', 'BankIslami Pakistan Limited', 'Dubai Islamic Bank', 'Emirates Global Islamic Bank Limited', 'Bank Alfalah Islamic' and 'Askari Bank Ltd'. In addition to these, there are 9 conventional banks working across the country. The State Bank of Pakistan has asked the conventional banks to open Islamic windows in their branches around the country. As per the World Competitive Islamic Banking Report 2016, Islamic banking held assets held by Pakistan valued US\$15bn and its operations accounted for 10.4% of the overall financial market of Pakistan and 1.4% at the global level. It is estimated that by 2020 Islamic banking held assets by Pakistan would reach to US\$31bn. Islamic insurance activities have also developed in Pakistan. Two Islamic Insurance companies, namely, 'Takaful Pakistan' and 'First Takaful Insurance Company' have been operating successfully in Pakistan. Even the Islamic Bonds (*Sukuk*) has gained importance as a source of fund for development projects in Pakistan. The first international Sukuk (Islamic bonds) worth US\$600 million were issued by the Government of Pakistan in 2005. Later, Emirates Global Islamic Bank Limited issued US\$329.75m Sukuk (Islamic bonds) to Pakistan Development and Management Company which undertook infrastructure development in the country. Islamic equity index has also been launched in the country to promote the Islamic business and finance activities in the Stock Exchange Market of Pakistan.

## **5.3. BANGLADESH**

Bangladesh undertook Islamic banking in the early 1980s. The first Islamic bank named 'Islami Bank Bangladesh' was set up in the year 1983. Islamic banking has been growing and developing steadily since then. Currently, there are 8 Islamic banks working along with 16 conventional banks under the dual banking system in Bangladesh. They include 'Islami Bank Bangladesh Limited', 'ICB Islamic Bank Limited', 'Al-Arafah Islami Bank Limited', 'Shahjalal Islami Bank Limited', 'Export Import Bank of Bangladesh Limited' and 'First Security Islami Bank Limited'. Apart from Islamic banks, many conventional banks also offer Islamic banking products through their own Islamic windows. Islamic banking contributes about 20% of the total assets in the banking sector of Bangladesh. As per the Financial Stability Report published by the Bangladesh Bank, the Islamic banks have been performing better than the conventional banks in the country. Apart from the banking activities, even the Islamic insurance operations were introduced in the country by amending the insurance laws in 2005. Some Bangladeshi Islamic banks have also undertaken Shariah-compliant securitization financing in the corporate sector of Bangladesh. The government of Bangladesh has been very supportive and favourable towards the promotion of Islamic banking in the country.

## **5.4. SRI LANKA**

Sri Lanka adopted Islamic banking in the year the year 2014 has been a remarkable year for Islamic banking in Sri Lanka as the total assets of Islamic banking grew to 50 billion assets in 2014 as against 35 billion rupees in the year 2013. As of now Islamic banking comprise of only 1% of total assets Sri Lanka's banking and finance sector. This low penetration in the banking sector is because of lack of awareness about this system of banking among the Muslim population in the country. It was found that only 15% of the Muslim population had some idea about Islamic banking rest all were not aware about this concept. Even after being a non-Islamic country, the government of Sri Lanka has amended its Banking Act from time to time to promote Islamic banking in their country. Islamic banking has a great scope in the country and the government is taking necessary steps to increase the awareness about this concept in the country.

## **6. STATUS OF ISLAMIC BANKING IN THE SOUTH EAST ASIA**

The Southeast Asia region comprises of the economies which are growing very fast in the world. The fact about Southeast Asian financial market is that the market is very competitive, fast growing and is also well connected and integrated globally. In countries like Malaysia, Indonesia and Singapore, Islamic banking has become an integral

part of the banking system and an important tool for investments in the Southeast Asian financial markets. These countries have attracted business and capital from the Middle East and the Muslim population in their own countries by the use of Islamic banking system. These countries have played a significant role in the development of Islamic banking system in the financial markets at the global level.

### **6.1. MALAYSIA**

Islamic Banking was adopted in Malaysia in the year 1983. Malaysia was one of the first few countries which had adopted this alternative system of banking. It is now counted among the major players and contributors to the global Islamic banking and finance industry. The first Islamic bank named 'Bank Islam Malaysia Berhad' was set up in Malaysia in 1983. Initially the country shifted to complete Islamic system of banking but later in the year 1993, the dual system of banking was introduced in the country. Currently, there are 16 full-fledged Islamic banks and 27 commercial banks operating in the country. As per the World Competitive Islamic Banking Report 2016, the Islamic banking assets constitute of 21.3% of the total banking sector assets in Malaysia. Globally the Islamic banking assets contributed by Malaysia stands at 15.5%. From the year 2014 it was seen that the growth of assets in Islamic banking sector has overcome the growth of conventional banking sector in the country. In the year 2015, the total Islamic banking assets held by Malaysia was US\$148bn and is estimated that by 2020 it would reach up to US\$218bn. Over the years major players from international Islamic sector have established their branches in Malaysia. It was also among the pioneers in introducing the Islamic insurance (*Takaful*) in 1989. Later in the year 1994, Malaysia became the first Islamic stock broker of the first Islamic equity market set up in the world of Islamic banking and finance. Even the Malaysian Islamic wealth management industry has grown over the years at a very tremendous pace. The Malaysian government has utilised the Islamic banking system as a tool in stimulating savings, investments and economic growth in the country.

### **6.2. INDONESIA**

Indonesia is the biggest Muslim dominated country of the world. It adopted Islamic banking system in the year 1992 with the setup of the first Islamic bank in the country named 'Bank Muamalat'. This bank is currently considered as one of the oldest Islamic bank worldwide. Initially the country adopted Islamic system of banking together with the conventional banks, Islamic products and services being offered by the Islamic banks separately. Later, the conventional banks were given licenses to provide Islamic banking products and services in the financial market through an Islamic window. At present there are two eight full-fledged Islamic banks in the country such as 'Bank Syariah Mandiri', 'Bank Indonesia', 'Hong Leong Islamic Bank' and others. As per the World Competitive Islamic Banking Report 2016, the Islamic banking assets constitute of 3.7% of the total banking sector assets in Indonesia. Globally the Islamic banking assets contributed by Indonesia stands at 2.5%. It was seen that the growth of assets in Islamic banking sector has been consistent since its inception in the country. In the year 2015, the total Islamic banking assets held by Indonesia was US\$25bn and is estimated that it would reach up to US\$50bn by the year 2020. As compared to the other countries the growth of Islamic banking system in Indonesia has been relatively slow. Even the Islamic insurance and Islamic bonds are at their initial stage in the country growth per year being approximately 2-3%. In the year 2006, Islamic bonds were issued in the country for catering to the investment needs. The government is working on different aspects to improve Islamic banking status in the country so as make the Islamic banks competitive globally which would accelerate the growth of the country.

### **6.3. THAILAND**

Thailand is a Non-Muslim country in which Islam has around six million followers. The Islamic banking system in Thailand started long back in the year 1998 when the Government Savings Bank offered Islamic products and services from the 'Islamic window'. Then in 1999, the Bank for Agriculture and Agricultural Cooperatives also applied Islamic Banking principles. Later in 2001, a full-fledged Islamic Branch was setup by Krung Thai Bank in the country. The Islamic banking system further expanded with the establishment of 'Islamic Bank of Thailand' in 2003. Currently it is the only bank offering Islamic banking in the country and adding to the economic growth of Thailand. Globally Thailand is not counted as a big contributor in Islamic finance. Many steps are being taken to amend the laws and promote Islamic banking in the country.

### **6.4. SINGAPORE**

Islamic banking products and services were offered in Singapore from the year 1998 but only through a separate window from a few conventional banks. Recently the country also understood the importance of Islamic finance and adopted Islamic banking system as an alternative banking system in the country in the 2001. Unlike other countries, which adopted Islamic banking operations initially and then went further with Islamic bonds, Singapore initiated into the Islamic banking sector by directly issuing Islamic bonds. Later it introduced Islamic insurance (*Takaful*) and Islamic wealth management. Singapore entered into ventures with Islamic banks of different countries

to strengthen the Islamic banking sector in the country. In the year 2005, Islamic banking got a boost in the country when the Malaysian Islamic bank 'Maybank' opened up its branch in Singapore and in the same year 'Oversea Chinese Banking Corporation' also known as 'OCBC Bank' also started operating in the country. It is now considered as one of the Asia's largest Islamic financial institution. Later DBS Bank, Noor Islamic Bank and others also opened up to cater to the Singaporean Muslims and to financially include their wealth for the collaborative growth of the country. At present there are 6 full-fledged Islamic banks in Singapore. The Central Islamic bank of Singapore has innovated and transformed over the years and is also providing Internet banking facility to the customers. Apart from this, the Islamic insurance (*Takaful*) industry in Singapore holds assets of worth more than US\$750 million. In 2005, the Singapore Stock Exchange introduced the first Islamic index named as 'Lion 30' whose operations were fully in compliance with the Islamic law (*Shariah*).

## **7. STATUS OF ISLAMIC BANKING IN AFRICAN COUNTRIES:**

Africa constitutes of countries like Egypt where Islamic banking was first experimented, Sudan, Ethiopia and Kenya where Muslim population is significant. The status of Islamic banking in Africa is not as well established as it is in other parts of the world. Islamic Banking is still in its initial stage in Africa. This also means that there is a market lying idle to be captured. Many big players are aiming at entering the African market. Since Islamic banking and finance industry is growing rapidly in terms of the global finance, it can offer huge business and finance opportunities to African countries.

### **7.1. SUDAN**

Islamic banking was adopted in Sudan in 1977. In Sudan also, Islamic banking system was adopted together with the conventional banking system. The first Islamic bank was formed by the Prince of Saudi Arabia and named after him as 'Faisal Islamic Bank'. Currently there are 5 Islamic banks operating in the country, namely, 'Faisal Islamic Bank', 'Tadamon Islamic Bank', 'Sudanese Islamic Bank', 'The Islamic Bank of Western Sudan' and 'Islamic Cooperative Bank'. In the year 1984, the country made an attempt to convert its banking system to fully Islamic banking system. But due to failure in proper implementation, it went back to the dual system of banking in 2004. This time Islamic banking system was adopted on the basis of the Muslim population in the region. Like where there was majority of Muslims, Islamic banking was adopted and in other regions conventional banking continued. Both the banking systems were supervised by the Central Bank of Sudan. The Islamic Banking assets held by the country equaled US\$ 15.6bn with a growth rate of 19% every year and the market share contributed by Islamic Banking system equals 100% as per Islamic Financial Services Industry Stability Report 2017. Sudan was the first country to adopt Islamic insurance (*Takaful*) and introduce Islamic insurance products and services in the financial sector in the year 1979. It is a leader in the global sovereign short-term Sukuk market.

### **7.2. EGYPT**

Egypt is the country which experimented with the concept of Islamic finance and banking. The first government Islamic bank in Egypt was established in 1971 and was named, 'Nasser Social Bank' which had to shut down soon as it turned out to be a failure. Later in 1974, the 'Faisal Islamic Bank' was setup in the form of a joint stock company. Faisal Islamic Bank is considered as the third oldest international Islamic bank. Currently, there are 6 Islamic banks in Egypt namely, 'Faisal Islamic Bank Of Egypt', 'The National Bank for Development', 'Abu Dhabi Islamic Bank', 'Al Baraka Bank', 'The Egyptian Gulf Bank' and 'Egyptian Saudi Finance Bank'. Egypt has been slow in Islamic banking sector as compared to the other countries but the importance of Islamic banking in Egypt is also increasing from the past few years. As per the Faisal Islamic Bank website, the number of Islamic banks operating in the country is around 14 conventional banks which provide Islamic banking services too. The Islamic banking sector has been growing at an average rate of 12% yearly in Egypt and it is estimated that Egypt will also become a major contributor to the Global Islamic banking sector by the year 2025.

## **8. STATUS OF ISLAMIC BANKING IN THE WESTERN COUNTRIES:**

The Islamic banking system in the western countries is not as well established as it is in other countries of the world. Islamic Banking is still in its initial stage in the Western countries. This also means that there is a market lying idle to be captured. Since Islamic banking and finance industry is growing rapidly in terms of the global finance, it can offer huge business and finance opportunities to Western countries.

### **8.1. AUSTRALIA**

Muslims are a minority in Australia and Islamic banking is in its nascent stage in the country. Islamic banking was present in the country since 1989 but only through the Muslim Community Cooperative Australia (MCCA). MCCA is the pioneer of Islamic banking in Australia and it had assets worth AU\$46.699 million in the year 2016 and the total asset of MCCA has been growing at an average rate of 5% every year. It majorly invests in the property

and real estate sector based on the Islamic principles and is supervised by the Shariah board. Apart from MCCA there is one another financial institution namely 'APV Sydney Finance' which also provides Islamic banking and finance services to the Australian Muslims. The success of MCCA has shown that there is a great opportunity for Islamic banking in Australia. Thus two banks were setup in the country which provided Islamic banking products, named 'The Bank of Tokyo-Mitsubishi UFJ, Ltd.' and 'Arab Bank Australia' while the 'National Australia Bank' is in the developing process of its systems for the introduction of Islamic banking and finance products in Australia. There are many other investors too who are eying Australia for investing and promoting Islamic banking in the country such as Oasis Group Holdings and AmInvestment Group. Islamic banking is a good tool for catering to the growing needs of Australian Muslims and also to enhance the growth of the economy.

## **8.2. UNITED KINGDOM**

In spite of United Kingdom having around 3 million Muslim populations, Islamic banking system gained importance in the United Kingdom only after 2002. It was at that time when Islamic banking had gained importance globally and the government of UK also realized the importance of bringing in Islamic banking in the United Kingdom. The Financial Services Authority (FSA) of UK decided to attract Islamic finance from the Middle East and other countries and therefore London was made the Centre of Islamic finance in the year 2003 as majority of the Muslim in United Kingdom reside in London. They amended their existing banking and taxation law in the year 2003, 2005 and 2006 to make Islamic banking procedures and products legitimate. Later in 2007 even the Islamic bonds (*Sukuk*) were introduced in UK's financial market. The first full-fledged Islamic bank was set up in the year 2004 named 'Islamic Bank of Britain'. At present there are 16 full-fledged Islamic banks in UK some of which are 'Islamic Bank of Britain', 'Qatar Islamic Bank', 'HSBC Bank', 'Riyad Bank', 'Saudi American Bank (UK) Ltd', 'Arab African International Bank', etc., and conventional banks and other financial institutions offering Islamic products and services through an Islamic window like 'HSBC Amanah Lloyds', 'Lloyds TSB', 'Mortgage Insurance UK', 'United National Bank'. Among the Western countries, United Kingdom has a well-developed Islamic banking system. Currently Islamic banking system is involved in sectors like Islamic securities and bonds, capital markets, asset management, trade finance and capital structured products. In the year 2017, the Bank of England developed a liquidity tool as per the Islamic laws for the Islamic banks which would help them in meeting their liquidity needs in order to attract more business from the Middle East and other countries. Islamic banking system has come a long way in the United Kingdom and has been growing steadily over the years.

## **8.3. UNITED STATES OF AMERICA**

The Muslim population in the United States of America is estimated to be above 10 million. Off late, Islamic banking system has gained importance in America. Islamic banking contributes around US\$1.5 billion in the USA. In the year 1987, the American Finance House LARIBA which was situated in California took up Islamic joint venture model for financing of automobiles, home mortgages and other small businesses. HSBC undertook Islamic financing for home and automobiles in the USA but due to failure in following the Islamic principles had to shut it business. Recently few of the financial institutions have entered into the Islamic finance market of the USA like in 2005, the first Islamic banking subsidiary 'University Islamic Financial' was established which offered products and services based on Islamic principles. The products and services included deposits, home finance and even Mutual Funds to Muslim population in the USA. Another bank 'Deank', based in Chicago suburbs, has also started to offer commercial and personal loans for homes and other assets based on modes of Islamic banks such as murabaha and Ijarah. Anchor Finance Group USA has also engaged itself in offering Islamic principles based services in the market. Moreover, Guidance Financial Group offers Islamic home financing products to Muslims in 32 states of the USA. Aamaa Mutual Fund Group is the biggest dealer of Islamic equity and Mutual Funds in the USA. There is a huge scope of growth for Islamic banking system in USA. The growth of Islamic banking system has already started in the country.

## **9. CONCLUSION:**

The Islamic banking system is said to be more ethical than the conventional system of banking. It offers a range of alternatives which are as efficient as the alternatives under the conventional banking system. Islamic banking emerged as a system of full-fledged banking system in the Middle East in the early 1970s. Gradually the other Muslim countries also adopted Islamic banking system and established their own Islamic banking institutions. Some of the Muslim countries went for complete transition from the conventional banking system to Islamic banking system while some other Muslim countries kept both the system side by side. Thereafter the Conventional banks in these countries too started offering Islamic banking services to cater to the needs of their Muslim customers. Owing to the gaining importance of this system of banking, many non-Muslims Asian countries also went for adoption of Islamic banking system. At first, the growth of Islamic banking was slow but over the recent years it has shown tremendous growth in the countries. In countries where both the system of banking is functioning parallel, Islamic banking has grown at a higher rate than the conventional one. Many factors such as high oil prices globally, booming economies of the

Middle East, increasing diversification of Islamic banking products and other related changes in the political sector have helped in the overall growth of Islamic banking system in the Middle East and Asian countries. The Government of these countries had actively promoted Islamic banking activities that led to the success of Islamic banking system in these countries. This success of Islamic banking and finance in the Middle East and Asian countries had a huge impact on the global financial markets. The Western countries too realised the importance of Islamic banking and many countries in the Western region introduced Islamic banking products and services, some took it as an opportunity to add innovation and diversity to their operations while others took it attract oil-wealth and local Muslim customers to their doors. Many of the Islamic banking institutions have joined hands with the Western market players to promote Islamic banking and finance products and services in the European and Western markets. Islamic banking system has been adopted widely in the Western financial markets and this has given the Islamic banking industry a great opportunity to become an integrated part of the global financial markets and compete with the conventional banking system. Islamic banking system has come a long way on its way to globalization.

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