

# INTRODUCTION

## Background

Islamic banking has become one of the fastest growing industries.<sup>1</sup> The ends of sixties and early seventies have seen the first tempts of the modernized form of Islamic banks based on profit and loss sharing concept in Egypt.<sup>2</sup> Currently Islamic banks are diffused globally in both Muslim countries as well as Western countries where it operates in more than 75 countries. According to Pew Research Center Muslims accounted for 1.8 billion in the world as of 2015 which is almost 24% of the global population.<sup>3</sup> As quoted in the global report on Islamic finance 2016 issued by the Word Bank Group; that the Islamic banking sector is the dominant component of the Islamic finance industry. It has grown exponentially, accumulating nearly \$1.9 trillion in assets.<sup>4</sup> The presence of Islamic banking in general is more globally including many western countries like Switzerland, Luxembourg, United Kingdom, Germany, France, and Australia. Many countries have a dual banking system in which they have both Islamic banks and conventional banks.<sup>5</sup>

Islamic finance is a system for all financial transactions that are conducted according to Sharia that provide the guidelines for all aspects of Muslim's life. Sharia has four main sources in which are classified as primary and secondary

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<sup>1</sup> Asyraf Wajdi Dusuki and Nurdianawati Irwani Abdullah, "Why Do Malaysian Customers Patronise Islamic Banks?", *International Journal of Bank Marketing*, 25, no. 3 (2007): 142-160.

<sup>2</sup> Monzer Kahf and Tariqullah Khan, "Principles of Islamic Financing", *Research Paper*, no. 16 (1992).

<sup>3</sup> Conrad Hackett *et al.*, "The Future of World Religions: Population Growth Projections, 2010-2050", *Washington, DC: Pew Research Center*, 2015.

<sup>4</sup> Global Report on Islamic Finance 2016, "A Catalyst for Shared Prosperity?", *Global Report on Islamic Finance 2016*, 2016.

<sup>5</sup> Jean-Yves Moisseron, Bruno-Laurent Moschetto, and Frederic Teulon, "Islamic Finance: A Review of the Literature", *The International Business & Economics Research Journal (Online)* 14, no. 5 (2015): 745.

sources. The Islamic economics and finance differs from the conventional one and from its traditional meaning of a pure economic and financial system. Islamic economics is mainly concerned about the distribution of wealth as a mean for achieving justice, equality, fairness, and economic equilibrium among the society.<sup>6</sup>

Islamic banking appears to be a complement to conventional banks, rather than a substitute. The last financial crisis had shed the light on problems and issues with reference to the stability of the conventional financial system and the increased level of speculation related to them.<sup>7</sup> Adding to this, Islamic financial industry is also considered by many analysts to be less risky because financial transactions do not rely on financial derivatives.<sup>8</sup> Moreover, Islamic finance is a way to mobilize finance and savings of Muslims and to increase sources of liquidity by attracting Muslim Gulf countries sovereign funds.<sup>9</sup> This particularly has played a role in its growth rate where it is considered one of the fastest growing in the global financial industry and its diffusion in the Western markets.<sup>10</sup> In addition to the ethical way that the Islamic financial system operates makes it similar to the social responsible investments that are widely appreciated in Western countries nowadays.<sup>11</sup>

Islamic banking in Europe is developing and the UK is one of the leading Islamic financial hubs not only in Europe but also globally. Islamic banking in the UK was developed through the demand of people that on return; has been causing governments to take positive steps towards Islamic banking. However, The UK experience was different since the government has supported Islamic finance and banking significantly.<sup>12</sup> This fact was always confirmed by highest governmental figures like; the British Prime Minister David Cameron in his

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<sup>6</sup> John R. Presley and John G. Sessions, "Islamic Economics: The Emergence of a New Paradigm", *The Economic Journal*, 1994, 584-596.

<sup>7</sup> M. Kabir Hassan and I.I.I. William J. Hippler, "Entrepreneurship and Islam: An Overview", *Econ Journal Watch* 11, no. 2 (May 1, 2014): 170-79.

<sup>8</sup> Rasem N. Kayed and M. Kabir Hassan, "The Global Financial Crisis and Islamic Finance", *Thunderbird International Business Review* 53, no. 5 (September 1, 2011): 551-64.

<sup>9</sup> Rodney Wilson, "Challenges and Opportunities for Islamic Banking and Finance in the West: The United Kingdom Experience", *Thunderbird International Business Review* 41, no. 4-5 (July 1, 1999): 421-44.

<sup>10</sup> Di Mauro *et al.*, "Islamic Finance in Europe", SSRN Scholarly Paper (Rochester, NY: Social Science Research Network, April 15, 2013).

<sup>11</sup> Paolo Pietro Biancone and Maha Radwan, "European Companies: Evaluation for Sharia Compliance 'Opportunities and Challenges'", *European Journal of Islamic Finance* 0, no. 5 (July 23, 2016).

<sup>12</sup> Rodney Wilson, "Islamic Finance in Europe", 2007.

speech<sup>13</sup> that “the British government plan to make the UK an International Financial Centre for Islamic finance”.

Without; the supportive role of the government, the active role of the private sector & enterprises, and finally the demand of the UK’s Muslim population for Islamic banking; Islamic finance and banking would not have this great success or development in the United Kingdom. Mentioning other European experiences like France and Germany, in France the government has approved some banking laws amendments to develop Islamic banking industry. There have some branches of Islamic banks from the Middle East and retail Islamic window. In Germany, the first Islamic bank was granted the license in 2015. However, it is worth mentioning that the German state had raised 100 million Euros through Sukuk and was the first to raise Sukuk in Europe.

## Book Structure

The book is organized as follows;

**The Islamic finance** is discussed in the first three chapters. Where;

**Chapter One:** provides a general overview for the Islamic finance and banking, background, explanation of its concepts, and a briefing for Islamic banks history and evolution. Finally, explaining the principles of Islamic finance.

**Chapter Two:** provides elaboration for the financial instruments used by Islamic banks, modes of financing investments and insurance instruments.

**Chapter Three:** provides an overview of the European approach in dealing with Islamic finance and explores deeply the UK’s experience. The chapter then will focus on Italy, providing an overview for reasons that could encourage the introduction of Islamic finance in Italy followed by what has been done so far and then concluding by what is still need to be done and identification of the gaps in the literature review related to finance and banking in Italian context.

**The attitudes and financial behavior intention toward adoption of Islamic banking is discussed in the following chapters.**

**Chapter Four:** provides review to the most relevant literature is done for understanding factors that could influence financial behavior intention towards Islamic banking adoption. A review for the literature for theories used to assess

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<sup>13</sup> The 9<sup>th</sup> WIEF was convened in London on October 29<sup>th</sup>-31<sup>st</sup> 2013. [www.wief.org](http://www.wief.org).

the determinants of the financial behavior intention in the framework of Islamic banking.

**Chapter Five:** provides the empirical research methodology used and data collection strategy, sampling and questionnaire design to assess the attitudes and the financial behavior intention of the potential users towards the adoption of Islamic banking products and services in Italy. Then provide the data analysis of the research results.

**Chapter Six:** depicts the conclusion, recommendations to the policy makers and financial institutions, and discussion for the results linking it to the contribution provided.

### ***Research Significance***

– The study also contributes to financial authorities, regulators and policy makers with some important relevant indicators and information. Examining the factors that predict potential users' financial decision and assessing Muslims needs for Islamic banking in Italy is an important aspect. As well as it assess the demand of the Muslims' communities residing in Italy for Islamic banking services and products. The study revealed that there is a high intention to use Islamic banking in Italy in case it is adopted.

– Understanding the motivators that encourage Muslims in Italy to use Islamic banks is a basic element for the process of introduction the Islamic financial system. The study verifies the level of awareness about the existence of Islamic banks and if there is association with having Islamic bank in country of origin. Moreover analyze the level of knowledge to assess if there is a need for more educational programs. The study investigated new elements like effect of awareness and having Islamic bank in the country of origin on intention to use Islamic banks in Italy. Moreover, provided an assessment for the preferences of Muslims in Italy on which services of Islamic banking they intend to use most.

# **ISLAMIC FINANCE AND BANKING**



# 1.

## ISLAMIC FINANCE AND BANKING FOUNDATION AND PRINCIPLES

**Summary:** 1.1. Introduction. – 1.2. Background. – 1.3. Islamic Economics and Finance. – 1.4. Islamic Finance and Sharia. – 1.5. Sources of Sharia. – 1.5.1. Quran. – 1.5.2. Sunna. – 1.5.3. Ijma. – 1.5.4. Qiyas. – 1.6. Islamic Banks: Brief History and Evolution. – 1.7. Islamic Finance Stability in the Global Financial Crisis. – 1.8. Features of Islamic Finance. – 1.9. Sharia Finance-Related Principles. – 1.9.1. Prohibition of Riba (Interest). – 1.9.2. Prohibition of Gharar (Uncertainty or Speculation). – 1.9.3. Prohibition of Maysir “Gambling”. – 1.9.4. Prohibition of Haram “Unethical” Versus Halal “Ethical Investments”. – 1.9.5. Principle of Profit and Loss Sharing (PLS). – 1.9.6. Obligation of Zakah “Charity”. – 1.9.7. Necessity of Underlying Tangible Asset.

### 1.1. Introduction

*Islamic finance has old theoretical roots of 1500 years ago, however its modernized practices flourished in the last forty years with a global in both Muslim countries as well as Western countries.<sup>1-2</sup> This Chapter provides a general overview for the basic and essential understanding of the Islamic finance and banking. It starts with a background followed by explanation for the Islamic economics & finance concepts and enlightenments about Sharia and its sources. Followed by, a briefing for Islamic banks history and evolution. The chapter will discuss then some views regarding Islamic finance stability in the recent global financial crisis. Finally, an explanation to the features, concepts, and principles of Islamic finance that distinguish it from traditional conventional banking, are provided.*

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<sup>1</sup> Rodney Wilson and others, “Challenges and Opportunities for Islamic Banking and Finance in the West: The United Kingdom Experience”, *Islamic Economic Studies* 7 (2000): 36-59.

<sup>2</sup> Munawar Iqbal and Philip Molyneux, *Thirty Years of Islamic Banking: History, Performance and Prospects* (Springer, 2016).

## 1.2. Background

Though the phenomenon of Islamic banking is considered a new one, but the origins of Islamic finance goes back to almost 1500 years ago as the age of Islam. The Islamic faith as a religion that began in Saudi Arabia with the Prophet Mohammad in the 7<sup>th</sup> century specifically year 610 in Mecca he started to receive the Holy book which is the Quran. The people who believe in Islam are called “Muslims”. The word Islam in Arabic means surrender and submission only to the one true creator and also it is derived from the word peace. The word Muslim means one who surrenders and submits to the laws of God. Islam provides directions for the general behavior standards for all life. In other words, Islam is not only a religion as the traditional interpretation but also it organizes the socio-economic and political life for Muslims, where it is necessary to follow and apply the ethical principles of the Holy Quran and Sunna (Prophet Mohammad’s Hadith “statements” and actions).

According to Pew Research Center<sup>3</sup> Muslims accounted for 1.8 billion in the world as of 2015 which is almost 24% of the global population – and Islam is the world’s second largest religion with the fastest growing rate. Between 2015 and 2060, the world’s population is expected to increase by 32%, to 9.6 billion. Over that same period, the number of Muslims – the major religious group with the youngest population and the highest fertility – is projected to increase by 70%. As a result, according to (Pew Research Center projections), by 2060, the count of Muslims will be (3.0 billion, or 31% of the world population). By 2050, Muslims will make up about 10% of Europe’s population, up from 5.9% in 2010.<sup>4</sup>

## 1.3. Islamic Economics and Finance

Islamic economics and finance differs from the conventional one and from the traditional meaning of a pure economic and financial system. Islamic banks and financial institutions are part of the Islamic economics and finance system. Where, Islamic banking practices have been used throughout the years where Islamic finance has moved from an old mere theoretical concept to be a practical reality. However, the contemporary practice of Islamic finance and banking is now more than 30 years old where the earliest practices has started in the sixties

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<sup>3</sup> Pew Research Center: <http://www.pewresearch.org>.

<sup>4</sup> Hackett *et al.*, “The Future of World Religions”.

(Siddiqi 2006).<sup>5</sup> Also others like Presley and Session 1994 have confirmed that Islamic finance and economics is not considered as new practices.<sup>6</sup>

Islamic economics is mainly concerned about the distribution of wealth as a mean for achieving justice, equality, fairness, and economic equilibrium among the society. Wealth according to Islam should not be concentrated among few people but should be shared and distributed among society. For Muslims; consideration of the poor and the needy is majorly highlighted in the pillars of Islam. Therefore, Muslims are encouraged to maximize their wealth as long as they do not create a social distortion or violating the norms of Islamic justice (Dusuki 2006).<sup>7-8-9</sup> Also from the principles, moral concepts and fundamentals of the Islamic economic system is to require from individuals their commitment to honesty and the prohibition of fraud in exercising of economic activity.

#### 1.4. Islamic Finance and Sharia

Islamic finance is a system for all financial transactions that are conducted according to Sharia (in Arabic Sharia is derived from a word that means guidance) as Biancone 2012 has defined.<sup>10</sup> While Algaoud and Lewis (2007), have translated it as the way to the source of life.<sup>11</sup> People who follow the Islamic faith should follow Sharia rules (Iqbal & Mirakhor 2007).<sup>12</sup> The Sharia principles provide the guide for what is Halal (lawful) and what is Haram (unlawful). Iqbal & Mirakhor mentioned that compatibility should be also to the moral

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<sup>5</sup> Mohammad Nejatullah Siddiqi and others, "Islamic Banking and Finance in Theory and Practice: A Survey of State of the Art", *Islamic Economic Studies*, 13, no. 2 (2006): 1-48.

<sup>6</sup> Presley and Sessions, "Islamic Economics".

<sup>7</sup> Ashraf Wajdi Dusuki, "Corporate Governance and Stakeholder Management: An Islamic Perspective", in *National Seminar in Islamic Banking and Finance*, KUIM, Nilai, 20<sup>th</sup>-30<sup>th</sup> August, 2006.

<sup>8</sup> Paolo Pietro Biancone and Maha Radwan, "Sharia Compliant 'Possibility for Italian SMEs'", *European Journal of Islamic Finance*, no. 1 (2015).

<sup>9</sup> Ahmad Abu-Alkheil, "Ethical Banking and Finance: A Theoretical and Empirical Framework for the Cross-Country and Inter-Bank Analysis of Efficiency, Productivity, and Financial Performance", 2012.

<sup>10</sup> Paolo Pietro Biancone, *Il Bilancio della Banca Islamica e la Rappresentazione dei principali contratti finanziari* (Franco Angeli, 2012).

<sup>11</sup> Latifa M. Algaoud and Mervyn K. Lewis, "3 Islamic Critique of Conventional Financing", *Handbook of Islamic Banking*, 2007, 38.

<sup>12</sup> Zamir Iqbal and Abbas Mirakhor, "Islamic Financial Intermediation and Banking", *An Introduction to Islamic Finance: Theory and Practice*, Second Edition, 2007, 151-172.

and ethical values of Islamic Sharia principles as well as obligations principles in Sharia like the obligations of Zakah (charity).<sup>13-14-15</sup>

Compliance to Sharia also applies to the financial aspects, i.e. financial institutions that provide services that are Sharia compliant this also relevant to understand the reason for the Sharia Supervisory Board in Islamic banking and finance. According to Iqbal and Mirakhor 2007, Islamic banks offers products that are interest free while the Islamic banking activities refers to Islamic financial services and activities that are Sharia compliant.<sup>16</sup> Islamic financial institutions are similar to conventional financial intermediaries in that they are profit maximizing institutions and offer traditional banking services, but differ in some of the principles under which they operate.<sup>17</sup> Islamic banking appears to be a complement to conventional banks, rather than a substitute. According to many writers like Warde (2000) and El-Gamal (2006), Islamic finance with its various products is available to both Muslims and Non-Muslims.<sup>18-19</sup>

The prohibition of interest or usury is the most widely known financial principle in Sharia. This prohibition mainly is what distinguishes Islamic banking from conventional banking that is referred as *riba* (prohibition of interest).<sup>20-21-22</sup> However there are many other principles of Sharia that are related to Islamic finance and banking that necessarily should be adopted by Islamic banks and any Islamic financial institution that are going to be explained later. The full adherence to Sharia doctrines is an obligatory thing where Islamic banks should be fully compliant to it. Siddiqi (2004) has defined Sharia as

<sup>13</sup> Iqbal, Iqbal, Z. (1997). *Islamic Financial Systems. Finance and Development*, 34, 42-45, 1997.

<sup>14</sup> Iqbal and Mirakhor, "Islamic Financial Intermediation and Banking".

<sup>15</sup> Zamir Iqbal and Abbas Mirakhor, *An Introduction to Islamic Finance: Theory and Practice*, vol. 687 (John Wiley & Sons, 2011).

<sup>16</sup> Iqbal and Mirakhor, "Islamic Financial Intermediation and Banking".

<sup>17</sup> Kangni Kpodar and Patrick A. Imam, "Islamic Banking: How Has It Diffused?", 2010.

<sup>18</sup> Ibrahim Warde, *Islamic Finance in the Global Economy* (Edinburgh University Press, 2000).

<sup>19</sup> Mahmoud A. El-Gamal, *Islamic Finance: Law, Economics, and Practice* (Cambridge University Press, 2006).

<sup>20</sup> Sudin Haron, *Islamic Banking: Rules & Regulations* (Pelanduk publications, 1997).

<sup>21</sup> Sudin Haron, Bala Shanmugam and Nafis Alam, *Islamic Financial System* (Insight Network Sdn Bhd, 2007).

<sup>22</sup> Abbas Mirakhor, "General Characteristics of an Islamic Economic System", *Anthology of Islamic Banking, Institute of Islamic Banking and Insurance*, London, 2000, 11-31.

principles that regulate all life aspects of life of Muslims whether they are economic, political, or social aspects.<sup>23</sup> He further added that Sharia comes from four sources that are divided into primary and secondary sources. Primary sources comprise the Quran and Sunna while secondary sources are the derived knowledge through Ijtihad “exertion” of scholars to accommodate new and contemporary issues, through agreed upon methodologies, such as Ijma “consensus” and Qiyas “analogy”.

### 1.5. Sources of Sharia

Islamic finance and economics as previously mentioned are mainly derived from Sharia principles are promoting human beings’ welfare according to Al Imam Al Ghazali one of the most famous Islamic scholars.<sup>24</sup>

As mentioned before; Sharia has four main sources in which are classified as primary and secondary sources. The primary sources are the Holy Quran and Sunna, while the secondary sources are Ijma and Qiyas. Sharia refers to the laws that regulates Muslims life’s<sup>25-26-27-28</sup> where it could be divided into two aspects; Ibadat that refers to the worship practices towards God and Muaamalat which refers to human inter-relationships from all aspects i.e. economic, social and political aspects. So consequently the Islamic banking and finance its principles are driven from the part of Muaamalat in Sharia.<sup>29-30-31-32</sup>

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<sup>23</sup> Muhammad Nejatullah Siddiqi, *Riba, Bank Interest and the Rationale of Its Prohibition* (Islamic Research and Training Institute Jeddah, Saudia Arabia, 2004).

<sup>24</sup> Al Imam Abu Hamid al-Ghazali is one of the great Islamic jurists, of the 12<sup>th</sup> Century. He wrote on a wide range of topics about Islamic jurisprudence.

<sup>25</sup> Haron, Shanmugam, and Alam, *Islamic Financial System*.

<sup>26</sup> Muhammad Ayub, *Understanding Islamic Finance: Az Keuangan Syariah* (PT Gramedia Pustaka Utama, 2007).

<sup>27</sup> Algaoud and Lewis, “3 Islamic Critique of Conventional Financing”.

<sup>28</sup> El-Gamal, *Islamic Finance*.

<sup>29</sup> Mirakhor, “General Characteristics of an Islamic Economic System”.

<sup>30</sup> Haron, Shanmugam and Alam, *Islamic Financial System*.

<sup>31</sup> Kabir Hassan and Mervyn Lewis, *Handbook of Islamic Banking* (Edward Elgar Publishing, 2009).

<sup>32</sup> Mohammad Nejatullah Siddiqi and others, *Riba, Bank Interest and the Rational of Its Prohibition* (The Islamic Research and Teaching Institute (IRTI), 2004).

### 1.5.1. Quran

The Holy Quran is the most principle and main fundamental source of knowledge and primary source of Sharia and it is the book that contains all the messages and words of Allah (God) that had been sent to Prophet Mohammad and it is the source of knowledge of adopting the holistic approach in guidance for various aspects of life, whether it is public or private and for both individual and corporate.<sup>33</sup>

The Quran has established criteria to guide in financial intermediation. For a simple example mentioning contracts and ethical conduct:

- “O you who believe! When you contract a debt for a fixed period, write it down” (Quran 2:282).<sup>34</sup>
- “O you who have faith! Fulfill all contracts” (Quran 5:1).<sup>35</sup>
- “O you who have believed, do not consume one another’s wealth unjustly but only [in lawful] business by mutual consent.” (Quran 4:29).<sup>36</sup>

### 1.5.2. Sunna

Sunna is also considered as a primary source of Sharia as well and in Arabic it refers to the way of life prescribed as normative for Muslims on the basis of Prophet Mohammad teachings, practices in life and interpretations and implementations of the Quran. It is composed of all his Hadith “statement” as well as his actions and way of life.<sup>37-38</sup> There are six major famous authentic books that are collecting all these statements. The six books are: Sahih AlBukahri, Sahih Muslim, Sunan Abo Dawood, SunanAn-Nisai, Sunan Ibn Maja, and Al Termizi.

### 1.5.3. Ijma

The third source of Sharia and it is considered a secondary source. It is refers mainly to the consensus and full agreement of all Muslim scholars (Ummah) on

<sup>33</sup> Frank E. Vogel and Samuel L. Hayes, *Islamic Law and Finance: Religion, Risk, and Return*, vol. 16 (Brill, 1998).

<sup>34</sup> Quran, Chapter 2 Al-Baqara, Verse 282.

<sup>35</sup> Quran, Chapter 5 Al-Maaida, Verse 1.

<sup>36</sup> Quran, Chapter 4 An-Nisaa, Verse 29.

<sup>37</sup> Vogel and Hayes, *Islamic Law and Finance*.

<sup>38</sup> Algaoud and Lewis, “3 Islamic Critique of Conventional Financing”.

a specific issue. This collective judgment of Ijma of all Muslim Scholars is based mainly on profound evidence in the Quran and Sunna.

#### 1.5.4. Qiyas

It means “Analogy” and it is used when there is no explicit or clear legislative in Quran or Sunna referring to a specific issue. It is the fourth source of Sharia and Fiqh “Islamic Jurisprudence” and the second secondary source. It is a method that scholars use to derive a ruling for new situations, and new developments in contemporary issues. These issues can be referred back and measured to those that are explicitly mentioned and clearly stated in Quran and Sunna. This is done through scholars who exert their maximum efforts to find the best explanation and this is called Ijtihad.<sup>39</sup> This in particular has played an important role in the contemporary Islamic banking and finance where it was used to find best interpretations and solutions for issues that were not explicitly mentioned in primary sources of Sharia i.e. Quran and Sunna.

### 1.6. Islamic Banks: Brief History and Evolution

The end of sixties and early seventies have seen the first tempts of one investment bank based on profit and loss sharing concept in Mit Ghamr in a village in the Delta of Egypt and one free interest bank in Malaysia.<sup>40</sup> Later on there was the establishment of the Islamic Development Bank and the Dubai Islamic Bank.<sup>41</sup> In specific the foundation of the Mit Ghamr in 1963 in Egypt as a first Islamic bank was seen as a fundamental step in the evolution of the modern contemporary Islamic banking.<sup>42-43</sup> Haron *et al.* and Sufian *et al.* have added that the establishment of this bank has been the initial application of banking concepts that are based on interest free principle. The studies and theories in the seventies started to focus on issues regarding interest based

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<sup>39</sup> Vogel and Hayes, *Islamic Law and Finance*.

<sup>40</sup> Kahf and Khan, “Principles of Islamic Financing”.

<sup>41</sup> Mohammad Saeed, Zafar U. Ahmed and Syeda-Masooda Mukhtar, “International Marketing Ethics from an Islamic Perspective: A Value-Maximization Approach”, *Journal of Business Ethics*, 32, no. 2 (July 1, 2001): 127-142.

<sup>42</sup> Haron, Shanmugam, and Alam, *Islamic Financial System*.

<sup>43</sup> Fadzlan Sufian, A.M. Mohamad and Abdul Majid Muhamed-Zulkhibri, “The Efficiency of Islamic Banks: Empirical Evidence from the MENA and Asian Countries Islamic Banking Sectors”, 2008.

financial system.<sup>44</sup> The 1980s have seen a big recovery for the Islamic finance based on Islamic values.<sup>45</sup> Going forward to the 1990s reaching up to nowadays, Islamic finance has witnessed several progress, growth and initiatives. In a way that all Islamic financial products, financing instruments, and contracts were intensively developed. Adding to these, the remarkable developments as well in issues like corporate governance and risk management areas.

Currently Islamic banks are diffused globally in both Muslim countries as well as Western countries<sup>46-47</sup> where it operates in more than 75 countries. Islamic finance industry has been gaining momentum not only in the Muslim countries but also worldwide (Karake-Shalhoub, 2008).<sup>48</sup> Though it is different than the conventional financial system, it has got some characteristics and features that make it attractive to the western economies. In 2015, according to the Banker report Top Islamic financial institutions 2015; banks and financial institutions offering Islamic Sharia compliant services totals 360 where 111 of them are conventional banks operating Sharia windows. Where; Western countries; in 2015 like Switzerland and UK were ranked in the 20 largest countries in total of Sharia compliant assets (The Banker, 2015).<sup>49</sup>

As quoted in the global report on Islamic finance 2016 issued by the World Bank Group; that the Islamic banking sector is the dominant component of the Islamic finance industry. It has grown exponentially in the last two decades, accumulating nearly \$1.9 trillion in assets and spreading across 50 Muslim and non-Muslim countries around the world.<sup>50</sup>

Hassan & Hippler (2014) reflected on that the recent financial crisis had shed the light on problems and issues with reference to the stability of the conventional financial system and the increased level of speculation related to them.<sup>51</sup> In that financial crisis that happened due to high leveraged financial markets had called for a safer and less risky financial alternative that promotes

<sup>44</sup> Siddiqi and others, "Islamic Banking and Finance in Theory and Practice".

<sup>45</sup> Mohsin S. Khan, "Islamic Interest-Free Banking: A Theoretical Analysis", *Staff Papers* 33, no. 1 (1986): 1-27.

<sup>46</sup> Wilson and others, "Challenges and Opportunities for Islamic Banking and Finance in the West".

<sup>47</sup> Iqbal and Molyneux, *Thirty Years of Islamic Banking*.

<sup>48</sup> Zeinab Karake-Shalhoub, "Private Equity, Islamic Finance, and Sovereign Wealth Funds in the MENA Region", *Thunderbird International Business Review*, 50, no. 6 (November 1, 2008): 359-368.

<sup>49</sup> The Banker, "Top Islamic Financial Institutions 2015", 2015.

<sup>50</sup> Global Report on Islamic Finance 2016, "A Catalyst for Shared Prosperity?".

<sup>51</sup> Hassan and William J. Hippler, "Entrepreneurship and Islam".

moral and ethical values. These values are found in the Islamic financial and banking system where the financial crisis has presented a great opportunity for the Islamic financial system to set itself as a valid important alternative to the conventional financial system. This was one of the factors that make Islamic finance attractive to the investors and for western and European financial institutions to offer that kinds of financial products. Moreover, another important factor that emphasizes its attractiveness to western economies is that Islamic finance is a way to mobilize finance and savings of Muslims and to increase sources of liquidity by attracting Muslim Gulf countries sovereign funds (Wilson, 1999).<sup>52</sup> This particularly has played a role in its growth rate where it is considered one of the fastest growing in the global financial industry and its diffusion in the Western markets illustrates how it is grasping the attention.<sup>53</sup>

Others like Biancone and Radwan wrote about other factor related to the ethical way that the Islamic financial system operates makes it similar to the social responsible investments that is widely appreciated in Western countries nowadays.<sup>54</sup> Therefore Islamic finance can be seen as the solution for Muslims who are looking for Sharia compliant financial services and to Non-Muslims who are looking for financial services that are based on ethical values. Fang and Foucart 2014 wrote in the same directions confirming this fact that Islamic finance is distinguished by its ethical values where it increasingly expanding in international markets involving Non-Muslim countries.<sup>55</sup>

Further to this Islamic finance is considered an alternative to the conventional financial system and no longer considered a peripheral industry due to the increasing and growing awareness of the Islamic banking. Grewal (2011), referred that total Islamic assets worldwide have increased from approximately US\$150 billion in the 1990s to in excess of USD\$1 trillion in 2010.<sup>56</sup>

According to the Islamic Financial Services Board (IFSB) that the Islamic Financial Services Industry documented in the Financial Stability Report, 2014, has increased in size where total Islamic finance assets grown up to USD1.8 trillion by the end of 2013, representing a compound annual growth rate of 17% between 2009 and 2013. To their report; Islamic banking remains the dominant

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<sup>52</sup> Wilson, "Challenges and Opportunities for Islamic Banking and Finance in the West".

<sup>53</sup> Mauro *et al.*, "Islamic Finance in Europe".

<sup>54</sup> Biancone and Radwan, "European Companies".

<sup>55</sup> Eddy1 Fang eddy.fang@liverpool.ac.uk and Renaud2 Foucart renaud.foucart@economics.ox.ac.uk, "Western Financial Agents and Islamic Ethics", *Journal of Business Ethics* 123, no. 3 (September 15, 2014): 475-491.

<sup>56</sup> Baljeet Kaur Grewal, "Constraints on Growth in Islamic Finance", *IFSB 4<sup>th</sup> Public Lecture on Financial Policy and Stability*, 2011.