

Critically analysing the impact of Islamic Banking on Global Market: Retrospect and Prospect

Adithya Anil Variath ¹, Tanya Gupta ²

1. Student of Law, 4th year, University of Mumbai's School of Law, Mumbai, India
2. Student of Law, 4th year, University of Mumbai's School of Law, Mumbai, India

ABSTRACT

Islamic banking is superintended by the Sharia Islamic law that was devised 1,400 years ago. It aims to provide banking services while staying within the Sharia boundaries and the law has been specifically formulated to eliminate malpractice and exploitation while encouraging healthy trade and commerce. While Sharia is a complete set of laws that are to be followed by every Muslim, only a restricted portion pertaining to banking transactions applies to Islamic finance. The Islamic financial system is a subtle mix of economy, ethics and Islamic law (Sharia) resulting in financial transactions based on fairness, profit, loss sharing and real transactions. The behavioural finance anatomy of Islamic economic system provides the value system moulded by ethical virtues through which it governs the economic interaction in the system. The Islamic order, in other words, through its ethical economy provides "the economic system with its basis and objectives on one hand, and with its axioms and principles on the other" (Kahf, 1989: 43). Islamic finance is one of financial services fastest developing sectors, growing at 10-12% annually in many Muslim countries. Islamic finance seeks to distinguish itself from conventional, interest-based finance by promoting ethical and socially-responsible investments and raising, using and lending capital in accordance with Sharia, or Islamic law.

Keywords: *Islamic Banking, Finance, Global market, statutory regulations, banking guideline*

I. INTRODUCTION:

"Those who consume interest cannot stand [on the Day of Resurrection] except as one stands who is being beaten by Satan into insanity. That is because they say, "Trade is [just] like interest." But Allah has permitted trade and has forbidden interest. So whoever has received an admonition from his Lord and desists may have what is past, and his affair rests with Allah. But whoever returns to [dealing in interest or usury] - those are the companions of the Fire; they will abide eternally therein." [Quran 2:275 – 27]

Banking is a cardinal financial institution in the present global economic and financial system. Despite adjoining each and every part of our lives, conventional banks have still been viewed solely as financial institutions, which should concern themselves with only financial matters. Ethics and moral principles has not invaded the equation. Islamic commercial jurisprudence forbids Interest on loans or securities, Speculation, Uncertainty in certain contractual terms and Anti-social business activities. The organization of Islamic conference (OIC) defined Islamic banking as "a financial institution whose statutes, rules and procedures expressly state its commitment to the principles of Islamic shairi'ah and to the banning of the receipt and payment of interest on any of its operations" (Hassan, 1999. P.60). The difference between Islamic finance system and conventional finance in investment consists of the fact that investors should observe certain principles in order to reconcile their belief with their investment practices. Shariah Law gives a complete code of life, from production to consumption, from earnings to expenditure, distribution of income and wealth, allocation of resources, property rights and the framework for banking system to operate. The source of Shariah Law is Quran and therefore Islamic banking confirms with Islam religion. The concept is based on a verse of the Holy Quran that says "Allah has allowed only legitimate trade and prohibits interest". Islamic banking having the same purpose as conventional banking except that it operates according to Muslim law called shariah. Contemporary Islamic finance emerged in 1963 with the establishment of the first Islamic bank in Egypt by Ahmad El Najjar as "Nasir

Social Bank” and the set up of Lembaga Tabung Haji in Malaysia. Until the 1970s, Islamic banking was mostly focused on the retail market. The rise of Islamic finance in the late 1970s clashed with the oil crises of that decade, which created an immense amount of wealth by bringing a large amount of capital to oil producing countries. The emergence of wholesale banking and product innovation is however a more contemporary development. In recent years, Islamic finance has attracted a number of western multinational financial institutions, which started offering Islamic financial products in the International Islamic financial market and to a lesser extent in the western world [Islamic finance: moving from niche market to a mainstream market]. Concentrated efforts also have been made to harmonise Islamic financial practices, from creating accounting standards for Islamic financial products (through the Accounting and Auditing Organisation for Islamic Financial Institutions, AAOIFI), to integration of those standards with global corporate and risk management standards (i.e., Basel Accords I, II and III) through the Islamic Financial Services Board (IFSB).³ Islamic finance also falls within the scope of the IMF and of the World Bank. Islamic finance constitutes more than 300 Islamic banks & windows that are present in at least 60 countries and more than 750 Islamic funds worldwide with assets under management of more than US\$60 billion. Today, Islamic Banking does not mean a mere lending institution extending interest-free loans, but a package of Shariah-compliant (strict adherence to Islamic economic norms) financial services like Islamic mutual funds, Islamic bonds (sukuk), Islamic insurance (takaful), Islamic credit cards and other technology-driven services like ATMs and online banking.

According to Mathews, Tlemsani and Siddiqui (2004), the Islamic economic principles of sharing risks and rewards, as well as joint involvement in the wealth creation through equity financing by investors and entrepreneurs, have the potential to induce creativity and productivity in an economy. By 2018, it is estimated that Islamic banking assets could reach about US\$3.4 trillion. “Islamic finance, which emerged as part of Islamic economics thinking, has gained roots in the global financial system. While *Shari’ah* compliance in finance in terms of legal and mechanical terms is essential and important, the consequences of Islamic financing is also important, as these consequences must fulfil the foundational principles and aspirations of Islamic economics. In this particular point, recent developments indicate that that Islamic finance is moving in another direction towards ‘capitalism’ by missing the value system of Islamic economic theoretic.”

Islamic banking is growing towards being one of the strongest alternative methods of banking which promotes financial inclusion and market security of investments. Today, Islamic finance represents a small but growing segment of the global finance industry estimated at 1% to 2% of the global financial assets worldwide.

II. STRUCTURE OF THE STUDY - ECONOMIC ANALYSIS OF LEGAL ASPECTS OF ISLAMIC BANKING:

A classic interface of the disciples of Law and Economics, the economic study of legal policy has challenged the political acumen of economists and law experts alike. The sheer intricacy of the legislative process and the speculative nature of the impacts of a law bring in the old age dilemma of efficiently binding human tendencies in the shackles of economic theory. Despite substantial volume of literature regarding this issue especially in the recent past, most authors concentrate on arguing for or against the policy. This paper is an attempt to go beyond the typical analysis on the banking policy, by taking a threefold approach.

The paper conducts an economic, socio-cultural and legal analysis of the Islamic Banking policy on three fronts. First, the economics of the Indian legislative and Constitutional process involved with Islamic banking with a special emphasis on the market conditions vis-a-vis the rules and guidelines laid down by Reserve Bank of India. Second, is the analysis of the Economic efficiency of the Islamic banking policy. Here, the paper attempts to touch on the functioning and viability of policy at a national and international level and the on original construct of how basic concepts like Governmental regulations, banking guidelines and consumer satisfaction/”banking for all” can form a way to make the policy acclimatized with global market. Third and the most important section deals with Global terrorism, Money laundering, Islamic banking and regulatory framework in India, by-laws, political approach and understanding the alternate economic system.

Research Methodology: Research emanated from secondary data collected from the various journals, articles from newspapers and magazines, various websites and Economic reports from various International organisations, Islamic banks and accounting firms.

III. ISLAMIC BANKING IN INDIA:

The biggest phase of development of Islamic financial institutions occurred in 1980s. In 1985, the High Council of Organization of Islamic Conference (OIC) declared takaful/Islamic insurance as Shariah compliant. The Banking system in India and all over the world is based on the interest system. Interest bearing money is almost like the law of nature where money generates money. The Indian Banking system has undergone many changes in the recent past with deregulation of banking system paving way for new banks in India. However, Islamic banking, which has emerged as a global phenomenon lately, has not evolved, as a full-fledged system in India though it is operative through the NBFC route. By 1970, several Islamic banks had been established worldwide with the first private commercial bank in Dubai (1975), Bahrain Islamic bank (1979) and the Faisal Islamic bank of Sudan (1977). Today, the Islamic banking system is growing on a very fast pace. According to the World Islamic Banking Competitiveness Report 2014-2015, Global Islamic banking assets attained compounded annual growth rate (CAGR) of around 17% from 2009 to 2013. Also, the global profit pool of Islamic banks is set to triple by 2019. The indispensable effectiveness of the establishment of Islamic banking in India lies in the sheer fact that India has a large count of Muslims spread all around the country. Under constructive regulatory circumstances, India can be a significant market for growth pledging a larger break for Financial Institutions. Being a forefront of Islamic banking initiative, the Indian economy would have fascinated investments from Middle eastern economies which are abundant in ready money. It is inferred from the Sachar Committee Report that nearly 50% Muslims are barred from finance and banking due to the prevention of interest in Islam which is presently ruled out in India. This motivated the committee on financial sector reforms, led by Former RBI Governor Raghuram Rajan, proposing regulations for Islamic Banking in India to guarantee that the Muslim community also happen to be an integral element of financial inclusion in the country. With no exclusive regulatory body, Islamic Banks in India are licensed under Non Banking Finance Companies Reserve Bank Directives 1997 RBI (Amendment) Act 1997. According to the report compiled by National Commission on Islamic Banking, it is concluded that there is a need to amend tax laws of India in order to meet the requirements of Islamic Banking and no changes are therefore to be made to the banking laws in effect. Although, this structure results in inclusion of the weaker sections of the society, it is unviable to the current banking system as the returns under this system is determined afterwards. The basic institution of this banking system can subvert the secular nature of banking in India. Islamic banking in India is being speculated as an opening of channel of inflow of terrorist money into India. Introduction of this structure based on religious norms is measured to be appeasement of the Muslims for establishment of enhanced political influence.

India's Islamic Finance - An Overview of Banking and Regulatory Framework in India:

“Islamic finance could be an effective solution for resolving farmer suicides in India. Though Islamic finance has been sluggish in its traction in the Indian economy, there have been developments from an Indian context that provide hope for the future.”⁴

IMF estimated that the aggregate financial assets, held in Islamic accounts, were above US\$2 trillion globally and that they would be profitable than conventional finance in many countries. The Committee on Medium-term Path on Financial Inclusion (the Committee), set up on the 15th July 2015 by the Reserve Bank of India (RBI) and headed by Deepak Mohanty, released a report (the Report) that strongly advocated the introduction of interest-free banking in India and also set out the advantages of adopting an Islamic finance-based model in India. The Report was submitted on the 28th December 2015, with various recommendations pertaining to the existing policy on payment and small banks, socially inclusive financial products and services and credit facilities which may be extended in the agricultural sector.

Although shrouded by ample political controversy, the RBI has been analyzing the effect of the introduction of Islamic finance from an Indian perspective for the past decade. The RBI released a detailed working group report in 2006 giving its opinion on a variety of issues plaguing the entrance of the financing model into India. The Committee in the Report had concluded that to effectively implement concepts of the Islamic finance model in India, a substantial legislative framework in addition to a change in the outlook of the masses would be required, for which India was (then) still unprepared. The primary objection raised in relation to the entry of Islamic finance in India has come largely from a religious angle, with parties advocating for or against it based on their political affiliations.

The common perception or misconception currently in India is that Islamic finance is aimed toward a particular section of the religious community. This point was even underscored by the Kerala High Court when it

dismissed the petition filed by Dr Subrahmaniam Swamy against the Kerala government investing in a Shariah compliant infrastructure financing company. From a political standpoint, the approach toward this alternative means of financing must be unbiased and propounded agnostically. Presently, any step taken toward furthering the establishment or offer of Shariah compliant institutions or products will be coloured with electoral politics. In India the scope of Islamic banking is very large because 140 million Muslims live in India which is around 15 per cent of the Islamic population.⁵

Banks and financial institutions are bound by the Banking Regulation Act, 1949 where sections 5(b), 5(c), 9 and 19 are incongruent with the Islamic finance model and prevent banks from providing financial services without an interest component. Various reports published by the RBI and the Report by the Committee have stated that to give Islamic finance in India a jumpstart, the existing laws, including the Banking Regulation Act, 1949, the Partnership Act, 1932 (relating to the maximum number of partners who may be appointed in a firm), the Contract Act, 1872 (for provisions relating to wagering which is against Shariah rules), the RBI Act, 1934, the Negotiable Instruments Act, 1881 and the Co-operative Societies Act, 1961, must be amended.

One of the main reasons behind the slow growth of Islamic finance in India has been the lack of an adequate legislative framework for setting up Shariah compliant finance institutions. Due to the lack of laws to promote this financing model and the reluctance on the part of the legislature to amend the existing framework regulating the banking and finance sector, individuals and entities following Shariah rules find it difficult to invest or undertake any ancillary financing activities in India. This also leads to a sparsity of institutions, banking and investment products in this sector.

IV. HOW ISLAMIC IS ISLAMIC FINANCE:

The leading Islamic economists such as Chapra (1994 and 2000), Siddiqi (1991), Naqvi (1981 and 1994), Ahmad (1980, 1994 and 2003) and Sirageldin (2002) have developed an axiomatic approach to develop conceptual foundations of Islamic economics by treating Islamic moral economy or the ethics as an ideal through which economic and social policies dealing with economic life, as well as every aspect of human life, are assessed. "The Islamic economy is defined within the parameters of its own ethical system, which fact, incidentally, demonstrates its originality and relativity." (Naqvi, 1994: 80)

1. Restrictions

Islamic Banking revolves around four unique aspects as cited in Quran:

- i. Prohibition of interest (Riba): Riba which has come to be interpreted as interest, is forbidden in Islamic transactions. This is a fundamental principle for Islamic finance and banking. Therefore a conventional loan, for instance, is impermissible as it includes interest. Practically, this implies that Shariah law does not allow fixing in advance a positive return on a loan as a reward for waiting. The argument is that riba implies an improper appropriation of other people's property and is bad for growth. Islam does recognize the importance of the time value of money, but the time value is not realized as part of a loan contract; it can be realized only as part of a real transaction.
- ii. Prohibition of Maysir (games of chance) and of Gharar (chance): Islamic banking bans speculation, which is increasing one's wealth by chance rather than productive effort. In practice, though, the distinction between speculation and productive effort is often blurred. While entrepreneurship itself could be interpreted as a form of gambling, maysir refers to unnecessary uncertainties not part of everyday life, such as going to a casino.
- iii. Prohibition of haram (illegal) activities: The code of conduct for Islamic banks allows them to finance only halal (legal) activities. They are not supposed to lend to companies or individuals involved in activities deemed to have a negative impact on society (for example, gambling) or that are illegal under Islamic law (for example, financing construction of a plant to make alcoholic beverages).

- iv. Payment of part of bank profits to benefit society (zakat): Muslims believe that justice and equality in opportunity (not outcome) are crucial for a society to function. One mechanism to achieve this goal is to redistribute income to provide a minimum standard of living for the poor.

2. Screening

Two types of screening are performed as regards Sharia'a compliant portfolios:

- i. ethical screening (sector-based) and
- ii. financial screening (accounting-based)

Indeed, in addition to removing companies with non-compliant (haram) business activities, the companies are also examined for compliance with certain financial ratios.

3. Role of Sharia'a Board

- i. In order to oversee the product development, and to get approval of a product as Sharia'a compliant, promoters will need a Sharia'a board.
- ii. The board is typically made up of a team of prominent Islamic legal scholars, well disciplined in jurisprudence, particularly in areas of transactions and business dealing.
- iii. The Sharia'a board is independent and has the duty to monitor the Sharia'a compliance of the transactions, the portfolio and the agreements as well as initially advising on the set-up of investment funds and contracts.
- iv. In addition to the purification obligation monitoring, advising on the zakat (alms tax) calculation is also one of the other Sharia'a board responsibilities. The purpose of zakat is to donate a part of one's wealth to the poor and needy.
- v. As the board has an advisory and supervisory role, a close communication needs to be maintained between the product development team and the board.

4. Structuralism of Islamic terms:

<p>Gharar: Any element of uncertainty in a contract as to the existence, the quantity or the quality of the subject matter of the contract. It also involves any contractual ambiguity of the terms of the contract. Such doubt may render agreements void.</p>	<p>Musharakah: Agreement involving several capital providers towards the financing of a project or a business. Any profits will be shared on a pre-agreed ratio while losses are shared based on contributed capital.</p>
<p>Ijarah: Agreement involving the usufruct of a specific non-monetary asset for a defined period of time in exchange of rental payments. For the leasing period, the lessor keeps the ownership of the asset and bears all liabilities non-connected to the use of such asset.</p>	<p>Riba: Within the context of financial operations, it means an increase over the principal in a loan transaction which is not allowed by the Quran. Sharia'a strongly dislikes money earning solely by passage of time. Riba is generally defined as an unlawful advantage by way of excess or deferment.</p>
<p>Istisna: Contractual agreement for producing well described goods or building at a given price and on a given date in the future. Such contract may be notably used for providing the financing of infrastructure projects (e.g., plant, bridge, highway, etc.).</p>	<p>Sharia'a board: Panel of qualified scholars delivering guidance and supervision on the development of financial services and products to ensure their compliance with Islamic precepts.</p>
<p>Maysir: Literally this means gambling, playing games of chance or speculating with the intention of making an unearned profit. The prohibition of maysir is often used as the basis for criticism of standard financial practices such as conventional insurance, derivative contracts and speculation.</p>	<p>Sukuk: Often considered as Islamic bonds, sukuk are in reality investment certificates evidencing an undivided prorata ownership of an underlying tangible asset. Sukuk are structured in such a way that their holders run a credit risk and receive part of the profit and not a fixed interest payment in advance.</p>

<p>Mudarabah An agreement made between a capital provider (rab al mal) and another party (mudarib) who manages the project using his entrepreneurial skills. Profits arising from that enterprise are distributed according to a predetermined ratio while financial losses are borne by the rab al mal except in cases of managerial misconduct or breach of contractual terms by the mudarib.</p>	<p>Takaful: System of mutual insurance in which the participants donate their contributions to a common fund. It may be used to pay claims for damages suffered by some of the participants. The company's role is restricted to managing the insurance operations and/or investing the insurance contributions.</p>
<p>Murabaha: Agreement with a credit institution for the sale of a good at a price which includes a profit margin agreed by both parties.</p>	<p>Zakat: A religious obligation of alms-giving, to pay annually 2.5% of certain categories of wealth to the poor.</p>

V. INTERNATIONAL ISLAMIC FINANCIAL MARKET:

In recent years, a growing number of studies have examined the relationship between the financial sector and the real economy. The recent statistical trends up and downs in the global economy, the World Islamic Banking Competitiveness Report, 2016 highlighted that the industry is set to grow by at least 10% annually. The factors responsible for such assumption are;

- i. Global Muslim population continues to grow;
- ii. Awareness about Islamic banking and finance (IBF) continues to rise; and
- iii. The per capita income and wealth held by Muslims are also rising, in line with the trends in other faith-based groups.

1. Role of Luxembourg in Global Islamic banking: Luxembourg is the second largest fund domicile in the world and is already the third largest domicile for Islamic funds worldwide, behind Malaysia and Saudi Arabia. These three countries cover more than 70% of the Islamic fund market. The number of regulated and unregulated Islamic funds in Luxembourg has increased to 111 funds in 2013. Products of Islamic Finance are not cramped to Muslims only. Islamic Finance principles are driven by Morality and Ethics rather than Religion. Sharia compliant products may be defined as a separate asset class. In that case "Islamic" is just a name, covering characteristics of e.g. transparency and lower volatility. Even the Vatican recommends Islamic Finance as an example of ethical business.

2. Global Terrorism and Money Laundering: The abuse of Islamic banks by money launderers and terrorist financiers is not unusual from what is experienced by the conventional banks and are well recognized by national authorities. Here, comes the role of the Financial Action Task Force (FATF), a policy making body that regulates provisions to combat money laundering and terrorist financing in their respective countries.

On determining whether Islamic finance and its rulings have any provisions that form a channel for money launderers and terrorist financiers, no confirmation has yet been found.

While examining of Money laundering and terrorism financing risks posed by Islamic Finance, three aspects are required to be considered:

- i. Typology of Islamic Finance can provide with a better study of the modus operandi of criminals abusing Islamic banks, reflecting the magnitude of ML/TF in the sector and thus apt mitigating measures can be applied.
- ii. The recommendations and declarations of FATF should apply equally to both conventional and Islamic Banks on international grounds.
- iii. Anti-money laundering measures and combatting terrorist finance should hold a stronger institution in countries where in Islamic Banks function majorly and at a greater rate.

Explicit zones of Islamic Finance that require a different tactic of FATF are:

- i. Functioning of Islamic financial institutions and certain transactions.
- ii. Nature of relation between Islamic banks and its customers.
- iii. Management of high capacity of Zakat.

FATF standards do not take into account two aspects of Islamic Finance:⁶

1. Definition of a “customer” - A key element of an effective AML/CFT framework is the identification of the “customer.” The concept of “customer” is not defined in the standards and its meaning is not entirely clear. In particular, it is not clear whether it applies to the types of partner-based relationship (rather than an “institution to customer” relationship) that are a key feature of Islamic finance. To the extent that such parties are not considered to be “customers,” they would fall outside of the provisions of the standards requiring countries to have in place robust regimes for customer identification and due diligence. While it may be argued on the basis of the rationale for customer identification requirements that such parties should be considered to be “customers” for the purposes of the standards, it would be useful to make this explicit. It should also be clarified that the FATF standards CDD measures apply to the other party in the contractual relationship, including the partner in the type of “partnerships” used in Islamic finance.
2. Similarly, the definition of a “financial institution” included in the glossary of the FATF Recommendations does not encompass comprehensively the reality of Islamic financial institutions - Financial institutions are defined as natural or legal persons conducting one or more financial activities (e.g., deposits, lending) listed in the glossary, which do not seem to incorporate the variety of existing Islamic finance’s products and services. Moreover, the glossary defines a financial institution as acting for or on behalf of a customer, whereas Islamic financial institutions engage for or on behalf of partners.

Although, FATF has similar recommendations for conventional and Islamic finance, yet there is a need to regulate few provisions for specific aspects of Islamic finance exclusively.

At this stage, few recommendations can be formulated:

- i. The regulators of measures to curb Money Laundering and Terrorist financing should understand the risks explicitly incurring in Islamic Finance and treat it accordingly along with an interaction with supervisors and regular practitioners of Islamic Finance Institutions. Typology of the structure of Islamic Finance and Banking can give a basic idea of analysis to calculate the risks involved and thus arrange intrinsic measures. The measures applied should be such that they do not disturb the integrity of the foundation of Islamic Finance and protects its financial institutions from being exploited.
- ii. Along with the regulators, the Islamic Financial bodies should also establish a body that supervises and assesses the risks they are facing when it comes to Money laundering and terrorist financing, since they know internal working tactics of the very institution and can thus implement measures effectively protecting their products and services from any criminal activity. Countries with a strong Islamic Finance system should have a supervisory body more efficient relative to the other parts so as to acknowledge every minute detail of the functioning of the system.
- iii. FATF and other similar bodies must take into account the specific aspects of Islamic Financial Bodies that are not covered under the conventional banks and thus address them individually and efficiently.
- iv. The Islamic and Conventional banks must have equal supervision from the regulating authorities but few aspects of Islamic Finance should be given special attention.

The FATF, the Islamic finance standard-setters and the national regulating authorities should seek a broader understanding of the specific Money Laundering and Terrorist Financing risks that may arise in Islamic finance and retaliate with an appropriate response.

VI. CONCLUSION:

Islamic finance and its institutions have been growing at a good rate worldwide since its establishment and has also resulted in growth of assets of various countries all around the world. Islamic Financial Services is spread across around 70 jurisdictions and has resulted in positive outcome throughout. According to the Global Islamic Finance Report (GIFR), it was estimated that the global Islamic financial services will stand at US\$ 2.293 trillion by the end of the year 2016. It is assumed that the potential size of the industry grows by 10% every year to estimate its size. Although the Islamic finance industry has displayed a positive growth but this growth rate slowed down in the year 2016 which has made stakeholders to re-consider their future strategy in this sector.

Several reasons have been attributed for slow pace of growth, such as:

1. Internal Political conflicts in Muslim countries.
2. Decrease in price of oil.
3. Introduction of new trends by western financial institutions.

Even though there is a slow growth rate of Islamic financial institutions, banks are still dominating in the domain of assets under management (AUM) wherein 75% of global Islamic Financial Assets are held by banks and Islamic windows of conventional banks.

Due to the widening gap between the potential size and the actual size of the global Islamic financial services industry, the catch-up period, i.e., the number of years required for the supply side of the IBF to meet all the demand for Islamic financial services, has also increased from 27 years (as reported in GIFR 2016) to 35.2 years. Growth of Islamic financial institution is determined to be moderate in 2017 but it is assumed that the growth will stabilise within a decade. Islamic banks are majorly affected due to change in price of oil as these banks function mostly in oil rich countries. Due to their firm and traditional business model, these banks work more efficiently during the times of crisis like change in oil prices as compared to the conventional banks. On one hand, the phenomena of Islamophobia has discouraged western financial institutions to link with Islamic finance structure but on the other hand this has given Islamic Finance a wider scope in Muslim significant countries. One instance, Kuwait Finance House that was launched as a subsidiary bank that provided for complete Shari'ah compliant banking services is now licensed a fully-integrated bank permitting it take deposits and offer financing services according to Islamic rulings. UK is the only non-Muslim country that features in a list of top 20 countries in terms of Islamic financial assets. Considering the position of Islamic banking and Financial Services in India, this structure will work in favour of the social, economic and financial welfare of various sections of our country. In this case, India needs a proper regulatory framework so as to establish the foundation Islamic and its financial services in a broader aspect and efficient way. The legislation should consider the economic boon of Islamic rulings rather than dirtying their hands in the mud of communalism. This initiative should be seen as an effort towards the welfare of those sections of the society that are deprived of financial inclusion and not seen as religious biasness.

SIZE AND GROWTH OF IBF BETWEEN 2007 AND 2016 AND FUTURE GROWTH PROSPECTS



NOTE: All the figures are in US\$ billion. For example, at the end of 2016, global size of the Islamic financial services industry was US\$2,293 billion, and this was due to an incremental increase of US\$150 billion over the previous year. Two estimates, i.e., US\$3,006 billion and US\$4,362 billion, are presented for the year 2020. The former is based on the assumption that the industry continues to grow at the current growth rate of 7% in the next four years; and the latter assumes that the industry will grow by compound annual growth rate of (CAGR) of 15.27% by 2020.

Source: IMF – Overview of the Global Islamic Finance Industry

VII. REFERENCES:

1. Matthews, R. Tlemsani and Siddique A (2004) Islamic banking and the mortgage market in the UK, in Shanmugam, Balaet.al (Eds) (2004) and Islamic banking: an international perspective, Serdang, Malaysia: university Putra Malaysia press
2. Zaman, M. raquibuz and Movassaghi, Harmoz (2001): "Islamic banking- a performance analysis", the journal of global business, Vol.12.
3. World Islamic Banking Competitiveness report 2015-16
4. A Political Economy Approach to Islamic Economics: Systemic Understanding for an Alternative Economic System by Mehmet Asutay : Kyoto Bulletin of Islamic Area Studies 2007, Vol. 1, No. 2
5. Census-2011. (2011). Religion, office of the registrar general and census commissioner, India, Population Finder, 2011. Government of India, Ministry of Home affairs
6. Raqeeb, H.A. (2009) Space and scope for Islamic banking, Radiance weekly
7. IBA. (2008). Draft Report of the Working Group to Review the B R Act-1949, Indian Banks' Association, May 2008
8. Reserve Bank of India (1949) : Banking Regulation Act, 1949
9. IMF Working paper – Islamic Finance and Anti-Money Laundering and combating the financing of Terrorism
10. Atje, R., and B. Jovanovic(1993) "Stock markets and development" European Economic Review, 37, 634-640.
11. Ayachi Ammar R., Ben Slama, M.,and D.Saidane(2013)"Does the current practice of Islamic banks encourages growth?" Studies in Islamic Economics, 6(1-2), 57-82.
12. Baele, L., Farooq, M. and S.Ongena (2014) "Of religion and redemption: Evidence from default on Islamic loans" Journal of Banking and Finance, 44(6), 141-159
13. SCR. (2006). Sachar Committee Recommendations, Sachar Committee Report-2006, Ministry of Minority Affairs, Government of India
14. Barajas, A., Chami R. and S.R. Yousefi(2013) "The Finance-Growth Nexus Re-examined: Do All Countries Benefit Equally?" IMF Working Paper
15. Ernst and Young. (2013). The World Islamic Banking Competitiveness Report, 2013-14.
16. Pavithra, G. (2008). Dissertation on Islamic Banking in India: Status, Prospects and Recommendations Raghuram Rajan advocates introduction of Islamic banking, The Financial Express, September 4, 2008
17. Beck, T., Demircuc-Kunt, A., and O.Merrouche (2013) "Islamic vs. conventional banking: Business model, efficiency, and stability" Journal of Banking and Finance 37, 433-447
18. Demircuc-Kunt, A., Klapper, L. and D. Randall (2013) "Islamic Finance and Financial Inclusion: Measuring Use of and Demand for Formal Financial Services among Muslim Adults" World Bank Policy Research Paper, No. 6642