Growth and Development of Islamic Banking: A Global Review

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ABSTRACT

The paper appraises the growth and development of Islamic banking sector internationally in various parts of the world covering several countries from across the globe, including Saudi Arabia, Iran, Bahrain, Kuwait, UAE, Qatar, Jordan, Egypt, Oman, Turkey, Malaysia, Pakistan, Bangladesh, Indonesia, Singapore, Philippines, Sudan, Nigeria, Algeria, and Kenya. Islamic banking domains in the western and European regions were also part of the discussion involving the following countries: Australia, UK, Luxembourg, Germany, Italy, France, USA and Canada. The paper employs qualitative research approach in evaluating the progress of Islamic banking initiative throughout various countries of the globe by fetching data from the central banking as well as from the financial regulatory bodies of different countries. Islamic banking initiative considerably developed in the Middle East region, spreading to global scale from this region to other Asian and European countries. The growth of Islamic banking setup in non-Muslims countries reflects the power and potential of Islamic banking as a global financial force. The paper provides key facts along with vital information offering a comprehensive review of global growth of Islamic banking initiative in major regions of the world including Middle East, Asia, Africa, Europe, Australia and North America.

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1. Introduction

The world economy, after the recession of 2007 has inspired us to realize that the theories and philosophy of capitalism have been unsuccessful to offer solutions to the global economic woes (Zaman, 2013). The national and international economic distress is principally the consequence of debt-laden and interest-based financial structures of global banking and economic system (Chapra, 1985; Ariff, 1988; Aqib, 2012). In this context, the role of Islamic banking and finance has become even more vital, especially to present itself as a viable alternative to conventional financial paradigm. The splendid growth of Islamic banking and finance and its progress in various regions of the world (Khan and Bhatti, 2008a) reflects its ability to deliver financial propositions that are not only
Shariah-compliant (in conformity to the Islamic law) but also pragmatic to cater to the contemporary economic and financial needs. The resilience and progress of Islamic banking is reflected by the key facts and performance parameters of Islamic banks in comparison to their conventional interest-based counterparts (IFSB, 2019).

Islamic banking and financial schema is primarily aimed at achieving Shariah-compliance in all its operations, processes, services and practices, wherein the chief objective is to eliminate *riba* or interest from the dealings and transactions involved therein. The early Islamic financial initiative can be traced back to the second half of the 19th century, when the roots of Islamic financial system started to grow in various forms (Aqib, 2014). The primitive Islamic banking activities emerged in various parts of the world including the Arabian and sub-continental regions among others (Wilson, 1983). The earliest and considerably tangible Islamic banking practice evolved from a financial institution with the name of *Mit Ghamr* in Egypt in the early 1960s. Another Islamic finance initiative in Malaysia with the name of *Tabung Haji* was also formalized in the 1960s (Ahmad, 1987). Although it was still in its infancy phase, at that time but slowly and steadily, Islamic banking gradually began to evolve and it was in the 1970 that he Islamic banking initiative literally took off with the development of several Islamic financial institutions (Aziz, 2005), including the first international Islamic financial entity in the form of Islamic Development Bank (Wilson, 2000).

Islamic banking is now a global phenomenon with a proven track record of success in not only the Muslim countries, but also in non-Muslim states, IB is a reckoning sector in Muslim-minority jurisdictions including UK, Europe, and Africa. According to the IFSB Report of 2019, global Islamic banking accounts for 72% of all Islamic financial services with approximately 1.57 Trillion USD assets. There are a total of 1389 Islamic financial institutions worldwide (Thomson Reuters, 2018) operating in more than 110 countries (Ayub, 2017) and out of these, 505 financial institutions are Islamic banks including the Islamic windows of conventional banks.

2. Islamic Banking in the Middle East

Islamic banking and finance set up began its successful journey from the Middle Eastern states. Islamic banking took off from Arabian countries to the Gulf States and beyond. The origin and development of Islamic banking in Middle East region is reviewed in this section:

3. Islamic Banking in Saudi Arabia

The Kingdom of Saudi Arabia is the center of Islamic world because of its religious significance and existence of location of holiest places for Muslims in this country. Islamic banking in the Kingdom operates on a parallel basis as in case of several other countries like Malaysia and Pakistan. The banking sector of Saudi Arabia is governed and regulated by the Saudi Arabian Monetary Authority (SAMA). Saudi Arabia has the second largest banking sector among the Gulf Cooperation Council (GCC) states, in terms of its assets value while the Kingdom's Islamic banking industry is also among the leading ones in the region (Khan et al., 2018). In terms of banking operational model, there are two categories of banks in the country; the banks that are providing Islamic banking services and secondly the conventional banks with some dedicated Islamic banking branches. Saudi banking industry comprises 12 local and 14 foreign banks being licensed to operate in the country. Out of the 12 local banks, the three local banks account for 45% of the total market share. Saudi banking sector has to its credit, the largest share of 28.5% (IFSB, 2021) of the total global Islamic banking assets in the world while at national level, the total assets of Islamic banking are more than half of the total banking share i.e. 51.3% of total banking sector assets in the country.
(Hassan et al., 2018). Out of the 12 local banks, four banks are full-fledged Islamic banks namely Al-Rajhi Bank, Bank Al-Jazira, Al-Bilad Bank, Al-Inma Bank while remaining eight are operating on mixed basis i.e. providing both conventional and Shariah-compliant products and services. The Saudi Arabia Monetary Authority (SAMA) in collaboration with the Ministry of Finance and Capital Market Authority is working diligently to provide effective regulatory framework, in order to strengthen and promote IB sector (SAMA, 2019; Saudi Gazette, 2019). And the view of Nichita et al. (2013) about Saudi IB industry is that it would continue to flourish under the facilitative supervision of SAMA and is currently the second largest Islamic banking industry in terms of assets of around USD 376 Billion (Thomson Reuters, 2018b), Saudi Arabian IB sector growth prospects are very much brighter.

4. Islamic Banking in Iran

Islamic Revolution of 1979 in Iran brought about the adoption of Islamic banking in the country at state level (Khan and Bhatti, 2008b). After the revolution, the country initiated to transform the banking sector on Islamic lines by designing and elaborating the laws on which the banking business shall be carried in the country and this was successfully completed while the country was having a war with the neighboring Iraq which was a big achievement and showed the commitment of Iran to run its economic and banking activities in a Shariah compliant manner. The “law for usury-free banking” was enacted in 1983 and was enforced in the coming year in March, 1984 by the central bank of Iran (Anwar, 1992). The peculiar feature of Iranian banking sector in its early stages after Islamic restructuring was that all banks were nationalized (Ashraf and Giashi, 2011) and were bound to operate on riba-free basis and hence the banking sector was based on a centralized model entailing a greater degree of regulation and control by the Central Bank of Iran – Bank Markazi Jomhouri Islami Iran. However, in the 1990s, the policy shift took place and the country moved towards deregulation and privatization in the banking sector. The first private bank to start its operations in Iran was Bank Karafarin and later a number of other private banks also were given licenses by Bank Markazi, in addition to some of the banks that were denationalized. The banks in Iran are largely classified into two categories i.e. government owned and private banks (Parveen et al., 2015) Currently, the banking sector of the country comprises thirty banking institutions including eight government-owned banks and eighteen private banks (CBI, 2019). The prominent Iranian banks include Eqtesad Novin Bank, Bank Mellat, Maskan Bank, Bank Pasagard and Export Development Bank of Iran. According to IFSB – Islamic Financial Services Board IFSI Report (2021), Iran holds the second largest share of global Islamic banking assets and leads all others with a staggering share of 22% and besides this distinction; Iran is the first country to embrace Islamic banking at state level having transformed the whole banking sector to Shariah-compliant system of banking.

5. Islamic Banking in Bahrain

Bahrain is the global hub of Islamic banking and finance industry. In various facets and several aspects, Islamic banking and financial paradigm in the country thrived and flourished with unmatched progress, by virtue of support at all scales and from all quarters. The supportive role in terms of regulations, policy formulation, supervision backed by a strong academic and intellectual effort triggered a swift and stable growth of Islamic banking in the country. The first Islamic bank in the country was Bahrain Islamic Bank, established in 1979. The Bahrain Monetary Agency (BMA), the central bank and the financial sector regulator of the country played an instrumental role in fostering the Islamic banking industry (Al-Sadah, 2005). Bahrain is an anchor to a large number of Islamic financial institutions and allied organization including regulatory, research, and standard setting entities like Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI),
Bahrain Institute of Banking and Finance (BIBF), International Islamic Financial Market (IIFM) and Islamic International Rating Agency (IIRA). The Islamic banking industry in Bahrain is carried on by several dedicated Islamic commercial and investment banks along with some off-shore banking entities (Khan and Bhatti, 2008b). Bahrain plays a key role in the progress and strengthening of global Islamic banking and finance initiative by contributing in various ways including development of accounting standards and regulatory framework, establishing industry’s corporate governance and best practices backed by unrivaled academic and intellectual institutions to produce and train knowledge-driven and competitive human capital to bolster a prosperous Islamic banking sector, led by a positive role by the Central Bank of Bahrain (CBB), formerly the Bahrain Monetary Agency (BMA). The remarkable Islamic banking growth has been one of the reasons behind Bahrain being one of the global leaders in Islamic finance sector with total assets of USD 27.8 billion, as in November 2018 (CBB, 2019a). According to the latest facts and figures released by CBB (2019b), the Islamic banking sector grew from 24.7 Billion US Dollars in 2014 to 30.7 Billion US Dollars as in June 2019, with an impressive annual growth rate of 17% and the future potential and prospects are even more promising, keeping in context the outstanding support provided by the regulatory and other governmental agencies. The share of Islamic banking which is currently 15% is estimated to go up in the coming years, largely because of the exceptionally favorable IB industry macro-environmental factors.

6. Islamic Banking in Kuwait

The country being one of the states with a large number of Islamic financial institutions also has the credit of having one of the oldest established Islamic financial institutions – The Kuwait Finance House (KFH), founded in 1977. KFH was the first Islamic bank of Kuwait and is considered one of the pioneers in the global Islamic banking domain. KFH is the largest Islamic bank in the world in terms of assets and offers a broad array of Shariah compliant banking services; from trade finance, real estate and investment portfolios to commercial, corporate and retail banking. The KFH services are available in not only Kuwait but also in several other countries including Saudi Arabia, Bahrain, Turkey, United Arab Emirates, Germany and Malaysia (KFH, 2018). Kuwait’s Islamic banking share is one of the best in the world, and according to IFSB (Islamic Financial Services Board) Report (2017) Islamic banks hold an impressive 39% share of country’s total banking assets. The vigor and strength of Kuwaiti Islamic banking sector is reflected by the fact that it has a total of five Islamic banks including the largest Islamic bank in the world and the average size of Kuwaiti Islamic banks is largest in terms of assets (Ali, 2011). The consolidated number of all Islamic banking branches in Kuwait is currently 600; with a staff of around 12000 employees; and total Islamic banking assets amounting to an astounding figure of US$96 Billion (Central Bank of Kuwait, 2018). According to a report by Thomson Reuters (2018a), Kuwait is one of the top six countries in the world in terms of Islamic finance, largely because of its robust Islamic banking sector.

7. Islamic Banking in United Arab Emirates

United Arab Emirates (UAE) has one of the torch-bearer Islamic financial intuitions which is also the biggest Islamic bank at that time – Dubai Islamic Bank (DIB), established in 1975. The bank is currently the largest Islamic bank in the UAE and is operating with 90 branches country-wide (DIB, 2019). DIB spearheaded the evolution of global Islamic banking initiative by being the world’s first fully fledged Islamic bank and it is also the second largest Islamic bank in the world (DIB, 2020). There are a total of seven fully dedicated Islamic banks in the UAE while the conventional banks also offer Islamic banking services through their Islamic windows (Tabash, 2019). Akoum (2017) stated that there are a total of 47 Islamic financial institutions including Islamic banks,
Islamic windows of conventional banks, and Islamic finance companies. According to various reports including the IFSB Report (2019) and Thomson Reuters’ (2018b) Islamic Finance Development Report, UAE is the fourth largest country in the world; only after Saudi Arabia, Iran and Malaysia; in terms of its share in global Islamic banking assets having a 9.7% of total Islamic banking assets in the world and in terms of local share, the Islamic banking sector of UAE retains a 19.6% share of its total banking assets. Islamic banking and finance educational and training initiatives are also thriving in UAE based on a large number of academic and training institutions providing Islamic banking and finance knowledge at a larger scale. In 2018, the central bank of UAE began working on its Islamic Finance Development Framework in order to bolster the growth of Islamic banking sector. The objective of Central Bank of United Arab Emirates (CBUAE) is to develop the legal and regulatory framework for the industry to effectively support the sector and to make UAE the leading Islamic financial services hub (CBUAE, 2018a). Being a full council member of the Islamic Financial Services Board – IFSB, the CBUAE is also playing an active role by contributing being the chair of the Technical Committee of the board. In 2018, the Higher Shariah Authority was established in order to standardize and harmonize the practices of Islamic banking and financial institutions by aligning them to internationally applicable Shariah standards and globally recognized best practices by collaborating with the pertinent stakeholders (CBUAE, 2018b). UAE is swiftly making progress to acquire a leading role in the global Islamic banking and finance industry based on a comprehensive approach by its legal, regulatory, academic and intellectual institutions towards the development of its Islamic finance sector.

8. Islamic Banking in Qatar

Qatar is also one of the important countries in the context of global Islamic banking industry. It is one of the few countries where Islamic banking share is substantial in comparison to conventional banking; the share of IB in Qatar is around one quarter, 26.6% to be precise (IFSB Report, 2017). According to Ibrahim (2015), there are a total of 18 banks in Qatar with four Islamic, seven local and seven foreign banks. Despite being smallest in terms of banking assets in Gulf Cooperation Council (GCC) countries, Qatari banking sector achieved significant growth in the past few years (Tabash, 2014). There are four full-fledged Islamic banks in Qatar (Khokhar, 2020), out of which Qatar Islamic Bank (QIB) is the largest and the first one, established in 1982. Qatar Islamic Bank holds overall 11% share of total market share among all banks and 42% share of Islamic banking market in Qatar (QIB, 2020). Qatar Central Bank (QCB) is playing a very active role in the development of Islamic banking and finance sector by devising and designing effective regulatory reforms (Tlemsani, 2015), such as the implementation of central Shariah committee for Islamic banks to bring consistency in Islamic finance industry (QFCRA, 2017). KPMG Report on Qatar’s banking sector (2017), also hinted at greater emphasis on Shariah governance framework to facilitate and strengthen the industry for future challenges. According to QCB (2016), Islamic banks in Qatar normally function under the three regulatory institutions including the Qatar Central Bank, Qatar Financial Center Regulatory Authority and Qatar Financial Markets Authority, and in order to ensure the sustained development of Islamic banking sector, the three regulatory institutions would be devising a common approach to various regulations and allied matters to standardize the supervisory and regulatory practices, in order to accomplish and ensure robust growth of Islamic banking sector in the future.

9. Islamic Banking in Other Middle Eastern Countries

Islamic banking is spreading rapidly in other Middle Eastern states, in addition to the ones mentioned above. The Islamic banking state of affairs in various other countries of the region
Jordan’s banking industry comprises of 25 banks, out of which 16 are Jordanian while 9 banks are non-Jordanian, out of the total 25, four banks are Islamic banks (CBJ, 2016). The four Islamic banks operating in Jordan are Jordan Islamic Bank, Safwa Islamic Bank, International Islamic Arab Bank and Al Rajhi Bank (Association of Banks in Jordan, 2016). Jordan Islamic Bank – a member of Al-Baraka Banking Group, established in 1978 is the oldest Islamic bank in the country and dominates the Jordan’s Islamic banking with 57.5% market share; it is currently operating with 79 branches and 246 ATMs across the country (Jordan Islamic Bank, 2020). Mahadin and Akroush (2019) opined that the potential of Islamic banking in Jordan is huge; the need is to tap this potential by tackling the challenges through a collaborative approach among the stakeholders (Saleh and Zeitun, 2006; Obeidat et al., 2013). The Central Bank of Jordan has recently issued “Regulatory Capital Instructions for Islamic Banks” to refine the regulatory framework for IBs (CBJ, 2019); which is another step towards a better regulatory environment that would further enhance the IB prospects in Jordan.

Egypt is the country where the oldest Islamic financial institution in the shape of a savings association was formed with the name of Mit Ghamr in 1963 (Aqib, 2014). Islamic banking initiated in Egypt in two forms i.e. first form was establishment of public and private fully-fledged Islamic banks and second in shape of Islamic branches of conventional banks. After some years, in 1972, another Islamic bank – Nasser Social Bank was established followed by two more Islamic banks being established by the private sector namely Faisal Islamic Bank of Egypt and the Islamic International Bank for Investment and Development. Egypt currently has 40 banks out of which three banks are fully-fledged Islamic banks including Bank Faisal, Bank Al Barakah and Abu Dhabi Islamic Bank (ADIB) while others are providing Islamic banking services (Mubasher, 2018). According to the head of Egyptian Islamic Finance Association (EIFA), Islamic finance market in the country is estimated to grow to $12.85 billion by the end of 2018. As per the opinions of EIFA officials, current Islamic banking share in Egypt is only 6% which is very low for a country, where world’s first Islamic banking institution was established. The challenges for IB sector are many including the lack of separate laws governing IB sector, lack of political will and dearth of innovative products and services; but the industry will certainly grow when these core issues are addressed in an and appropriate manner (Smith and Zawya, 2018; Fayed, 2013).

Syria approved laws pertaining to Islamic banking in 2005 and by the end of the coming year i.e. 2006; the Syrian government gave permission to three Islamic banks, namely the Saudi Dalat Al-Baraka’s Al-Baraka Bank, Al-Sham Bank, and Syrian International Islamic Bank to commence their operations in the country (Khan and Bhatti, 2008b). There are currently 14 banks in Syria out of which three are Islamic banks. (Sukkar, 2018) The Syrian economy has suffered greatly because of the civil war in the country that began in 2011 (Giovannetti and Perra, 2019) and the banking sector along with other economic areas has been adversely impacted. Giovannetti and Perra (2019) are of the view that the economy would enter into the recovery phase after 2020 and the banking sector would also start to move towards positive direction, the Islamic banking sector can also benefit from this economic rebuilding phases.

In Lebanon, the law regarding establishment of Islamic banking was issued in February 2004. Presently, there are 53 banks in Lebanon out of which only five are Islamic banks as stated by the central bank of Lebanon – Banque Du Liban (2019). The current scenario of Islamic banking in the
country is not very encouraging, as the demand for the IB services is not on the rise (Bizri, 2014). However, Lebanon might gain experience to enrich its IB industry by following the footprints of its neighboring states.

The emergence of Islamic banking in Yemen dates back to 1996 when the Islamic Bank of Yemen for Finance and Investment was established as the first Islamic bank in the country and in the same year another Islamic bank with the name of Tadhamon International Islamic Bank was also established. Subsequently, two more Islamic banks were set up in 1997 and 2002 (Ayedh et al., 2014). The total number of Islamic banks in Yemen is six (Central Bank of Yemen, 2020) and including the banking sector, the overall economic situations is in tatters because of the ongoing war, and chances of any improvement in the economy are linked to the restoration of peace and stability in the country.

Islamic banking in Oman is making steady progress. Islamic Banking Regulatory Framework (IBRF) was released by the central bank of Oman in December 2012 to permit IB activities in the Sultanate. There are two full-fledged Islamic banks operating in the country along with six Islamic windows of conventional banks (Curtis, 2019). The share of Islamic banking assets in the Sultanate of Oman is 13% of the total banking assets (CBO, 2019). The two fully-fledged Islamic banks are Bank Nizwa and Al Izz Islamic Bank. According to Belwal and Al Maqbali (2019), there are some operational weaknesses at IB financial institutions that need to be addressed to ensure stable progress. The studies conducted by Mubeen et al. (2014) and Echchabi et al. (2019) envisaged that the state of Islamic banking sector is looking bright with greater prospects of growth in the future.

In Turkey, the term “participation banking” is used for Islamic banking (Ergeç, 2017). Although, the share of Islamic or participation banks in Turkey is meager at around 5%, at 4.90% to be precise (Zawya, 2018) but there are strong prospects that the industry would surge in the coming years because a comprehensive law for regulating the sector shall be issued by the Turkey’s banking and regulatory and supervision agency – the BDDK (Stubing, 2017). There are ambitious plans to increase the share of Islamic banking up to 25% in the future. The optimistic goal to enhance the market share of Islamic banking in Turkey is by setting up a mega Islamic bank with the cooperation of other countries including Indonesia and some other states interested to participate in the project. The proposed bank shall act as a central bank and a lender for global Islamic banking and financial institutions (Daily Sabah, 2017). Presently, there are two state-run and three private Islamic banks, operating in Turkey namely the Albaraka, Kuvyet Turk, Ziraat Katilim, Turkiye Finans and Vakif Katilim; collectively having more than 15,650 employees and 1100 branches (Birinci, 2019). Now let us shed some light on the state of Islamic banking in other regions of the world. In the next section, the IB situation in Asia is discussed country-wise.

10. Islamic Banking in Asia

Islamic banking has gone from strength to strength in Asian countries especially in the South Asian region. We will be discussing the developments and progress of Islamic banking sector in various Asian countries (excluding the Middle-Eastern countries and Pakistan) hereunder:

11. Islamic Banking in Malaysia

Malaysia has achieved the status of a world leader in Islamic banking and is at the center-stage of global Islamic banking and finance industry. The remarkable progress, the country has achieved is because of a holistic approach towards Islamic banking and finance – IBF paradigm by
attaining success at various fronts; from designing and implementation of an effective regulatory framework; gaining stakeholders’ support including the facilitation from government, non-government and multilateral bodies; crafting potent policies and ensuring smooth their execution; building institutions of academic and intellectual nature to strengthen the IBF knowledge base and to ensure capacity building of industry stakeholders to eventually produce Islamic banking professionals of global repute and competitiveness; to enactment and application of superior Shariah governance regime and assuring a meticulous level of supervision for Islamic banking and financial institutions, Malaysia’s progress in IBF sector has been phenomenal. The IBF development in Malaysia has not been sudden rather it has come a long way since its origin in the decades of 1960s when Tabung Haji was established as one of the pioneering Islamic finance entities in the world. One of the cornerstones of success was Malaysia’s systematic approach to obtain tangible results in IB sector (Al-Nasser and Muhammad, 2013).

Malaysian Islamic banking industry has achieved the status of global Islamic banking and finance hub based on the impressive growth of the sector and great contribution to the global IBF domain (Alwi et al., 2019). There are four full-fledged Islamic banks in the country namely Bank Islam Malaysia Berhad, MBSB Bank Berhad, Bank Rakyat, and Bank Muamalat Malaysia Berhad (Asni, 2019). BIMB – Bank Islam Malaysia Berhad was the first Islamic bank established in the country in 1983. In 1990s, conventional banking institutions were also allowed to offer Islamic banking products and services and in the year 1999, the second Islamic bank – Bank Muamalat Malaysia Berhad (BMMB) started its operations in the country. Currently there are a total of 16 Islamic banks and Islamic banking windows. Kayadibi (2010) stated that a master plan for financial sector was released by the Malaysia’s central bank (BNM) to promote the country as a regional center of IBF. The efforts and collaboration of various stakeholders including the government and regulators are proving fruitful as reflected by the facts and figures. Malaysia has a total of USD 204 Billion of Islamic banking assets with IB having 31.2% share of total banking assets (MIFC, 2018) and is the third largest IB market in the world only behind Saudi Arabia and Iran (IFSB, 2021). Malaysia intends to become a global Islamic finance gateway as planned in its FSBP – Financial Sector Blueprint 2022-2026 (MIFC, 2022).

12. Islamic Banking in Pakistan

Pakistan’s Islamic banking (IB) origins may be traced back to the late 1970s, concurring with global rise of Islamic banking initiative, in the second half of 1970 (Aqib, 2014). In 1977, the IB paradigm was initially considered by the then President of Pakistan, Zia ul Haq as a system that may be pragmatically implementable to get rid of riba (interest) in financial transactions (Khan and Bhatti, 2006b). The task to plan and truly transform Pakistan’s financial system based on Islamic guidelines entailing a interest-free banking sector was assigned to the Council of Islamic Ideology (CII), which is an expert body on Shariah matters (Shah and Niazi, 2019). Besides the governmental efforts to structure and operate a viable Islamic banking and finance (IBF) system upon the recommendations put forward by the CII, the legal, tax, regulatory and socio-economic frameworks of the country acted as hurdles in the way of IBF mechanism which consequently resulted in a failure to endure an immature system at various levels of the economy (Khan and Bhatti, 2006).

The jaded first phase of IB followed the revitalization efforts by the government who formulated a Commission for Transformation of Financial System (CTFS) in the State Bank of Pakistan (SBP) to complete the task of eliminating interest from the banking system. The CTFS also coordinated with other task forces to achieve the goal of an interest-free economy within the time-
frame prescribed by the Supreme Court (Janjua, 2004). The efforts of CTFS culminated in the year 2001, and the fruitful deliberations of various stakeholders from the government, banking and regulatory sectors; the SBP was assigned to craft a multipronged strategy for the development and progress of Islamic banking in Pakistan (Shah and Niazi, 2019). The SBP, with reference to the assigned task, formulated detailed criteria regarding the establishment and structure of a full-fledged Shariah-compliant commercial bank. And resultantly, the first Islamic commercial bank license was issued by the SBP in 2002 (SBP, 2002).

After the establishment of first Islamic commercial bank in the country name Meezan Bank, the IB industry progressed with the commencement of several other full-fledged Islamic banks including Bank Islami and Dubai Islamic Bank. The growth of the IB sector continued as the SBP also permitted and encouraged the conventional banks to open their Islamic subsidiaries and separate IBBs – Islamic banking branches (Aqib and Hussain, 2017). According to SBP (2007), a total of six Islamic banks operated in the country in 2006. The total number of Islamic banking branches in the country went up to 1100 till March 2013 as compared to only 99 in February 2006 reflecting a remarkable growth (SBP, 2013). Another latest development that can boost the Islamic banking initiative in the country is the verdict given by the Federal Shariah Court (FSC) in 2022 to ensure Islamic financial system is implemented and interest is eliminated from the economy by 2027 (Bhatti, 2022).

There are currently five dedicated Islamic banks operating in Pakistan including Meezan Bank, Al-Baraka Bank, Bank Islami, Dubai Islamic Bank and MCB Islamic Bank. The number of conventional banks Islamic banking divisions/windows operating in the country is 17 and there are currently 2979 Islamic banking branches (IBBs) and sub branches including 2850 full-fledged IBBs and out of these 2850 full-fledged Islamic branches, dedicated Islamic banks’ branches are 1469 and conventional banks’ IBBs are 1381 (SBP, 2019). The market share of Islamic banking assets and deposits in Pakistan’s overall banking industry is 15.2% and 16.9% respectively (SBP, 2020). There are currently a total of 3250 outlets of Islamic banking operating in Pakistan, with total assets of PKR 3360 billion (approximately USD 20 billion).

13. Islamic Banking in Bangladesh

Islamic banking has been in operation since the first half of 1980s (Sarker, 1999) in Bangladesh and since its inception, it has developed positively and progressively in the country. The beginning of IB in Bangladesh can be traced back to the year 1983 in which the first Islamic bank – Islami Bank Bangladesh Limited was established (Sarker, 2005) and is also the largest Islamic bank in the country (Islam et al., 2019). Islamic banking thrived in Bangladesh because of several factors including regulator’s facultative role and support among others. In this regard Bangladesh Bank, in 1997, mobilized all Islamic banks operating in the country to organize IBCF – Islamic Banks Consultative Forum, to bring forth the important matters pertinent to the industry’s growth to effectively address the same to ensure a promising future for the IB sector (Sarker, 2005). Although there are no separate Islamic banking regulations or law and Islamic banks are monitored and supervised by independent Shariah boards/councils (Rashid et al., 2009); but in order to assure progressive growth, legal framework is one of the vital areas that requires the attention of the concerned stakeholders (Nabi et al., 2016). According to Bangladesh Bank (the central bank of Bangladesh), Islamic banking in the country has been consistently showing a steady growth (BB, 2018) and currently Islamic banking assets represent 24% of total banking assets in the country. There are currently eight fully fledged Islamic banks while sixteen conventional banks are operating
their Islamic banking windows and branches totaling 1252 Islamic banking branches with a total staff of 34,128 (BB, 2019). IB sector is destined for a good future in Bangladesh as the country’s overall economy is also booming that shall add to the prospects of the IB industry.

14. Islamic Banking in Indonesia

Indonesia is the largest Muslim country in the world and naturally because of its huge Muslim population, Islamic banking holds good potential in the country but this potential is still largely untapped as reflected by the low market share of Islamic banking of merely 5% of the total banking industry (Maulia, 2019). The state of Islamic banking, commonly termed as Sharia Banking in Indonesia, is not very encouraging but there is a strong resolve by the government to develop the country’s IB sector. After the first Islamic bank was established in the country – Bank Muamalat Indonesia, in 1991 by virtue of the intuitive taken by Indonesian Ulema Council (MUI), Muslim intellectuals and entrepreneurs (Bank Muamalat, 2020). Besides a sluggish growth and a low market share of Islamic banking industry, the steps are afoot to accelerate and facilitate the IB sector by the government and regulators including the OJK – Otoritas Jasa Keuangan (Indonesia’s Financial Services Authority) and the central bank of Indonesia. In 2008, the Bank Indonesia (country’s central bank) issued a comprehensive strategy for development of Islamic banking to bolster the IB sector through various means and ways including adoption of an integrated and effective communication strategy to enhance awareness for Islamic banking products and services in Indonesia. As per the latest information as of December 2019, released by the Indonesian Financial Services Authority (OJK, 2019), there are 14 full-fledged Islamic banks in the country and in addition to the full fledged Islamic banks, there are 22 Islamic business units of conventional banks as well, that are operating to offer Shariah-compliant banking services. Bank Indonesia in collaboration with other stakeholders and governmental support, is optimistic about a promising future of the Indonesia’s Islamic banking industry by envisioning a modern Islamic banking sector with universal features that will be inclusive to all Indonesians (BI, 2020). There are issues that needs to be addressed like the lack the political will and slack social attitudes towards diffusion and acceptance of Islamic banking in the country (Sari et al., 2016) and at state-level, the IB industry has lacked adequate regulation support (Abduh and Omar, 2012), if these matters among others are dealt with, the industry would certainly grow and thrive. According to Maulia (2019), the Indonesian authorities plan to increase the market share of Islamic banking up to 20% by the year 2024, the target seems too optimistic, but it may be achievable provided the regulators are able to rejuvenate the industry through an effective framework and smooth policy execution.

15. Islamic Banking in Brunei

Brunei is among the few countries that have a dominant Islamic banking sector share of more than 50%. Islamic banking began in the early 1990s in Brunei (AMDB, 2020). The country experienced a swift and stable Islamic banking progress as the IB sector started to blossom within half a decade of its initiation in the country (Ebrahim and Joo, 2001). Presently, the IB sector boasts an impressive 63.5% share of total banking assets according to the country’s central bank – Autoriti Monetari Brunei Darussalam (AMDB, 2018). One of the major reasons of robust IB growth in the country is the dedication of government that led to a greatly favorable environment for the Islamic banking operations in the country. There are currently three Islamic banking and financial entities in the country including Bank Islam Brunei Darussalam (BIBD), Perbadanan Tabung Amanah Islam Brunei (TAIB), and Bank Usahawan (Abduh, 2020). Bank Islam Brunei Darussalam founded in 1993, is the full-fledged Islamic commercial bank which is largest in terms of branch network in IB domain. Though the country runs a dual banking system with both conventional and Islamic banking
in operation, Islamic banking prevailed because of strong governmental support and political will (Yusuf et al., 2018). Besides some vulnerabilities including stiff competition from conventional banking sector and uncertainly regarding the future trend of country’s “petro-dollars”, the overall future prospects of Islamic banking in Brunei are very bright and encouraging.

16. Islamic Banking in Singapore

After Islamic banking took a boost in the decade of 1990s, the IB initiative started to spread across other regions of the world including European countries and various states in Southeast Asia including Singapore. This was quite encouraging for the Islamic banking setup to witness its dissemination across countries with Muslim-minority populations including Singapore as being a non-Muslim state having only 14% population of Muslims. The Islamic financial industry began its journey in the country in 2001 (Khan and Bhatti, 2008b). In 2005, Maybank – a Malaysian bank launched Islamic banking in Singapore and in the following year another well established financial institution, OCBC Bank also initiated Islamic banking operations in 2006 (Khan and Bashar, 2008). In 2007, Singapore’s first fully fledged Islamic bank named as The Islamic Bank of Asia was established by DBS Bank – one of the largest financial entities in the region. The country was among the few countries with a strong Islamic financial industries having greater share of other financial services including Sukuk and assets management etc in comparison to Islamic banking. The low share of Islamic banking and slack adoption of Islamic banking services contributed to the downfall and closure of the only fully dedicated Islamic bank in 2007. The Monetary Authority of Singapore (MAS) played a facilitative role for Islamic banking in the country by introducing specific framework and policies (Chia and Wang, 2008) and despite setbacks, Durai (2014) noted that the Islamic banking continued in the country with the regulatory support from the Monetary Authority of Singapore (MAS). According to Menon (2014), the Managing Director of MAS, there are currently 15 banks offering Islamic banking services in Singapore, accounting for 1/3rd of total Islamic finance assets in the country (MAS, 2020).

17. Islamic Banking in the Philippines

Philippines is a non-Muslim country having one of the oldest Islamic banking institutions named Al-Amanah Islamic Bank, established in 1973, it is the first and only Islamic bank operating in the country. The bank had suffered heavy financial losses in the mid 1990s (Ibrahim et al., 2018) and was eventually acquired by the Development Bank of the Philippines in 2008 and continued its operations as Al-Amanah Islamic Investment Bank of the Philippines (AAIIBP). The Islamic banking movement in the Philippines has been slack because of very minute Muslim population, non-favorable market dynamics (Latif, 2019) and some legal limitations and constraints (Tetangco, 2014). Recently, the IB initiative has received an uplifting shift in shape of a law passed as an act by the government in August 2019 exclusively for Islamic banking, known as Republic Act No. 1143 which is a statute for the regulation and organization of Islamic banking entities in the country. The act has also been approved lately (precisely in January of 2020) by the BSP (Bangko Sentral ng Pilipinas) which is the central bank of the Philippines (BSP, 2020) and Alegado and Lopez (2019) reported that the law would facilitate the establishment of subsidiary Islamic banks and enactment of Islamic banking units by the existing conventional banks, promising better prospects for Islamic banking in the country. Now that we have reviewed the state of affairs of Islamic banking in Asia, we will now be discussing about the status and situation of Islamic banking in African states.

18. Islamic Banking in Africa

Africa is the second largest continent in the world and the African states have large Muslim
populations (Ali, 2016). Despite having an overall less share of Islamic banking in the African banking industries, Islamic banking and finance which is now offered in 21 countries across Africa (Pasha, 2019) holds good prospects in the African continent ratified by the fact that several large sized banking institutions in various African states including Nigeria, South Africa and Kenya have established Islamic banking windows to offer Shariah-compliant products and services (Rundell, 2018). The good potential can be achieved, for instance by following the example of one of the smaller African countries named Djibouti which is one of the few states in the world that boasts of a healthy Islamic banking market share at national level which is more than 20% grabbing a place in the top ten countries where domestic Islamic banking share is 20% or more (IFSB, 2019). According to Maierbrugger (2019), along with Sudan, Djibouti is the only country in the African region with a considerable amount of Islamic banking assets, so other states may follow the footsteps to adopt Islamic banking in at a greater magnitude. The Islamic banking scenario of some of the major African countries is reviewed hereunder.

19. Islamic Banking in Sudan

Sudan is only the second country along with Iran where entire banking industry operates under the principles of Shariah. The origin of Islamic banking in the country goes back to the year 1977 (Khan and Bhatti, 2008b). One of the oldest Islamic banks and the first of its kind in Sudan, was established in 1977, named Faisal Islamic Bank which was an initial step for the establishment of country’s Islamic banking setup (Mohsin, 2005). In 1983, three more Islamic banks were established in the country to boost the Islamic banking initiative. Subsequently, the government enacted a pertinent law – Islamic Shariah Act of Banking in 1984 to govern whole of the banking sector under Islamic Shariah guidelines. Al-Hashimi (2013) stated that despite several difficulties and obstacles including both internal and external economic and political challenges, the Islamic banking experienced success in the country. In the midst of political crisis, the country implemented Islamic banking system in North part of the country and exempted South part from the Islamic banking system because of its Christian majority (Onour and Abdalla, 2011). However, after the country got divided into two parts, in 2011 when South Sudan was separated to form an independent state, Islamic banking was fully implemented in the other half where there was Muslim majority. Presently, the whole banking sector of Sudan is Shariah compliant with an encouraging and appreciable financial performance (CBOS, 2019) and the central bank has established a committee of Shariah scholars to oversee the whole banking sector in order to ensure that the sector is functioning in the context of Shariah (Al-Harbi, 2020). According to the Central Bank of Sudan (CBOS, 2017), there are a total of 37 banks operating in Sudan out of which 32 are commercial Islamic banks (Faye et al., 2013) while five are specialized banks. Abdo and Onour (2020) are of the view that the prospects of Sudanese banking industry look promising backed by a strong Shariah compliant financial product and service structures.

20. Islamic Banking in Nigeria

The country being the largest economy in Africa, with more than 214 million people, is vital from economic perspective and especially in the context of a large Muslim population accounting for around 54% of total population (CIA, 2020); Nigeria has good Islamic banking prospects. From 1961 to 2003, various efforts were made to introduce system of Islamic banking in Nigeria which remained ineffective due to weak regulatory framework and issues of disorientation and lack of will by the concerned authorities (Mubarak et al., 2020). The first full-fledged Islamic bank in Nigeria, Jaiz Bank PLC was established in 2011, and Jaiz bank (2019) was the premier non-interest bank in the country offering Shariah-compliant banking products and services. According to Mubarak et al.
The Central Bank of Nigeria (CBN) in the CBN Act 2007 permitted the conventional banks to offer Islamic banking services in the separate non-interest bank branches and CBN also issued guidelines from time to time to facilitate regulation of Islamic banking in the country (CBN, 2011). According to Sa’id (2020), Islamic banking showed encouraging growth in Nigeria, however, religious issues between Muslims and Christians and low acceptance of Islamic banking services by general public, kept the sector from achieving its true potential. Currently there are only two full-fledged Islamic banks in the country, including Jaiz Bank PLC and the second one (Taj Bank Limited) recently licensed in 2019 (CBN, 2020), but despite this fact, there are still promising prospects for the Shariah-compliant banking in Nigeria, mainly because of large Muslim population and conducive regulatory environment.

21. Islamic Banking in Algeria

Algeria is among the top three Muslim populated countries in the African region making it a good prospect for Islamic banking. Banque Al-Baraka d’Algérie was the first Islamic bank in Algeria, established in 1991 (Benamraoui, 2008). Because of several legal, technical, and social factors, Islamic banking could not flourish in the country (Gherbi, 2018). Among the reasons for slack growth of Islamic banking, one major issue is the under-developed banking sector with an overall saggy progress due to various causes (Hacini and Dahou, 2018). According to OBG (2018), apart from the Bank Al-Baraka another specialist Islamic bank, Bank Al-Salam is also operating in the country. The development of Islamic banking domain in the country largely relies upon assistive role of country’s government and its central bank, The Bank of Algeria, who would have to play an instrumental role by providing the necessary regulatory support.

22. Islamic Banking in Kenya

East Africa’s biggest economy and one of the regional Islamic banking centers (Dahir, 2017), Kenya has three specialized Islamic banks, including the Gulf African Bank, First Community Bank and Dubai Islamic Bank besides 11 other banking and financial institutions offering Islamic banking products and services (Mwaniki, 2017). The country was the first one to introduce Islamic banking in the east and central African region in 2007 (Aden, 2014). The Islamic banking sector of the country has bright prospects, provided the necessary regulatory facilitation is provided by the concerned stakeholders including the government and especially the financial regulators (Darr, 2020). Furthermore, to realize the true potential of IB setup in the country, Kinyanjui (2013) stressed the need for Islamic banking service providers to lift their business by expansion in their branch network and product assortment. According to Mwaniki (2017), the International Monetary Fund (IMF) has cautioned the Kenyan authorities regarding weak links in the regulatory framework with reference to the Islamic banking operations in the country and the Central Bank of Kenya (CBK) has pertinently resolved to strengthen the supervisory and regulatory framework for Islamic banking to ensure sustainable growth of the sector in the coming years (CBK, 2018). After reviewing the Islamic banking scenario in African states, let us now shed light upon the situation of Islamic banking in European countries and in Australia as discussed in the following section of the chapter.

23. Islamic Banking in Europe and Australia

Islamic banking in western states emerged with the passage of time as it was proved as a lucrative financial proposition to the people across religions and regions. The underlying motive for introducing and offering Islamic banking services in the Muslim-minority European countries, was to realize the financial potentials by attracting Muslims living in the European region as well as to enhance financial inclusion of those reluctant to get involved with the interest-based banks, because
of their religious beliefs (Cattelan, 2013). The country-wise status of Islamic banking sector in the western countries is discussed hereunder:

24. Islamic Banking in United Kingdom

The Islamic banking history in the UK dates back to the year 1982 when Al-Barakah International Bank (AIB) was set up and initiated operation as a fully-fledged Islamic bank in the country, but later its license was revoked by the Bank of England and till 2004, Islamic banking ceased to exist in the country (Abdullahi, 2016). Wilson (2000) stated that Islamic banking had a promising future in the region because client-driven markets like the UK were always a good potential market for Islamic banking and financial paradigm. The IB initiative again revived in 2001 when a committee was formed to facilitate the development of Islamic banking by the government and Financial Services Authority (FSA) – the financial regulator in the UK. In 2004, Islamic Bank of Britain was established as the first retail Islamic banking institution. Afterwards, the IB industry progressed encouragingly and soon UK was positioned as one of the top Islamic finance hubs outside the Muslim world by anchoring a large a number of Islamic banking and financial institutions (Sobol, 2015). The IB setup in the country thrived because of various favorable aspects including attraction of IB products and services to Muslim and non-Muslims (Lane, 2020) as well as the supportive legal and regulatory arrangements by the concerned authorities to give Islamic financial institutions a level-playing field in comparison to other interest-based financial institutions, notably the changes in Stamp Duty Land Tax ( SDLT) provisions to facilitate Islamic finance transactions is one prominent instance in this regard (Kulshrestha and Ali, 2019). There are currently more than 20 banks offering Shariah-compliant financial services in the UK (Firdaus, 2019); and according to TheCityUK (2019), among these banks, five are fully-fledged Islamic banks including (i) Al Rayan Bank (formerly Islamic Bank of Britain), (ii) Abu Dhabi Islamic Bank, (iii) QIB UK, (iv) Bank of London and the Middle East, and (v) Gatehouse Bank. The country is the largest Islamic finance market in not only the European region but is also one of the top Islamic banking and finance centers in the world (McKenzie, 2010). In addition to Islamic financial sector growth, the country is among top countries which offer Islamic banking and finance learning courses and trainings. The prospects of Islamic banking in the UK are tremendously bright, as reflected by the facts and figures as well. The total banking assets of five Islamic banks in UK stood at $4.7 billion, according to the 2019 report by TheCityUK which also ratified that UK is an Islamic finance hub in all of the Western countries and tops the list of the Non-Muslim states in IBF growth.

25. Islamic Banking in Luxembourg

The country has a long history of accomplishments with regards to the global Islamic financial initiative. Luxembourg has a proven status of an Islamic finance center in the European region (Laarab, 2019), starting its Islamic finance journey with the establishment of first Islamic finance institution in a non-Muslim country (The Islamic Banking System) in 1978 (Mausen et al., 2019). Apart from this, Luxembourg has also attained many firsts in Islamic finance domain by being the first European country to authorize Islamic insurance in 1983 (El-Galfy and Khiyar, 2012), and according to LFF - Luxembourg for Finance, Luxembourg’s central bank - Banque centrale du Luxembourg (BCL) was the first European central bank to join the IFSB and according to EY (2017), the country became the first European state to join as one of the founding members of International Islamic Liquidity Management (IILM) in 2010. Tan (2015) mentioned that the plans were underway to establish a fully-fledged Islamic bank (Eursibank) in 2014, with a proposal from various stakeholders from Gulf region, but the idea could not materialize. The plans for the bank revived as the Islamic finance group (Eurisgroup) who pioneered the idea of Eursibank, is intending to raise the
capital to establish the first Islamic bank in Luxembourg which would cater to the financial needs of not only Muslim but also non-Muslims who are interested to transact within an ethical banking framework in the European region (Merani, 2018). In the context of an overall conducive and facilitative legal and regulatory environment, future of Islamic banking, whenever it is being launched, seems a promising prospect.

26. Islamic Banking in Germany

One of the largest world economies and having a large Muslim population along with a huge business and trade volume with the Gulf and Middle Eastern countries (Aichbichler, 2009), Germany is a fairly positive prospect for Islamic banking setup. Volk and Pudelko (2010) stated that only limited Islamic banking services are offered to customers in Germany by the institutions that are also operating in Middle Eastern countries and offering a broad range of Islamic finance services in those countries. According to European Central Bank, (2013) it was in 2009 that the country’s Federal Financial Supervisory Authority (BaFin) decided to permit Islamic banking services in Germany and in 2015, the first Islamic bank in Germany named KT Bank AG started its operations and apart from it, some other financial institutions are also offering Shariah-compliant services in the country including the Commerzbank AG and Bahrain’s Al-Baraka group is delivering digital Islamic banking services (Reuters, 2018). The majority of the Germans is Christian but there is a huge number of people who believe in no religion, approximately 37% (FAZIT, 2018) but according to Volk and Pudelko’s study (2016), conducted regarding Islamic banking in Germany, they asserted that lower degree of religiosity does not necessarily imply that interest in Islamic banking would also be on the lower scale as also discussed by Haron et al., 1994; Gerrard and Cunningham, 1997; Marimuthu et al., 2010; in their studies that religion is not to be overemphasized for banking selection. To accelerate the IB sector in Germany, Beloucif (2017) and Soylu (2019) recommended wooing not only the Muslims but also the non-Muslim prospects to ensure relatively productive efforts to acquire customers from this unexploited IB market in Europe.

27. Islamic Banking in Italy

According to Iannazzone (2019), opportunities might be created to explore the IB initiative in Italy by contemplating the IB system with the related phenomena of ethical banking and social investing and like several other European countries, Italy has also issued some guidelines regarding the comparability of Islamic banking services with the conventional banking mechanics to deliberate the IB initiative in the country. The subject guidelines were released by Bank of Italy in 2010, yet the supervisory challenges and regulatory matters need to be settled to allow the Shariah compliant banking services to gain a momentum in Italian banking system (Brugnoni, 2008; Opromolla, 2012). Biancone (2014) discussed the negotiations between UBA (Union of Arab banks) and ABI (Italian Banking Association), to possibly establish the first Islamic bank in Italy in 2008 but it could not materialize due to the issues created by the global financial crisis. Padovani (2016) stated that IB setup, if launched and supported would render financial opportunities for not only the 1.5 Italian Muslims but would also add diversity to the country’s banking sector attracting non-Muslims to avail ethical banking services. According to Padovani (2017), the demand for Islamic banking services exists in Italy and significant Islamic banking players including the Al-Barakah Banking Group (ABG) from Bahrain, are considering to enter the Italian banking industry, Padovani further emphasized the huge potential of IB initiative but asserted that the general regulatory environment and legal framework matters must be addressed beforehand to govern the operational aspects for Islamic banking and financial institutions.
28. Islamic Banking in France

After the financial crisis of 2008, France aimed to attract foreign funds to stabilize the economy and Islamic finance was considered a vital proposition to lure funds from the investors in oil-rich Middle Eastern countries (Hajjar, 2019). Volk and Pudelko (2010) stated that having largest Muslim population in Europe with a huge number of around six million (Hackett, 2017); France may become a key Islamic banking market in the region. According to TheBanks.eu (2019), there are approximately 340 banks in France, out of which sixteen have origins in Muslim countries but only eight of these banks are offering Islamic banking products and offerings while out of the Shariah-compliant services provided by the eight banks, few are for retail banking customers and mostly are for corporate banking customers only. French authorities have made some legal modifications to assist Islamic banking in the country (Schoon, 2009) but the IB setup seems stagnant to a larger extent (Bi and Atta, 2009). The IB sector may be boosted by addressing regulatory and supervisory issues (Khan and Porzio, 2010) especially in the context of huge potential with a large Muslim population in the country, offering lucrative financial opportunities and prospects to the early initiative-takers in the domain of Shariah-compliant banking products and services (Santelli, 2016).

29. Islamic Banking in Australia

The first Islamic finance initiative in Australia dates back to 1989 when MCCA (Muslim Community Cooperative Australia) was established to cater to the banking, financial and investment needs of Australian Muslim community. After the success of MCCA which has financed more than $1 billion for home financing and is managing approximately $50 million of investments (MCCA, 2019); another institution was established named MCCU (Muslim Community Credit Union) in 1999, which primarily operated as a retail-banking services organization (Mirza and Halabi, 2003). In 2001, another arrangement (Iskan Finance) to provide Islamic home financing was established (Rammal and Zurbruegg, 2016) and subsequently Amanah Islamic finance for Shariah compliant home mortgages was also set up. The license of MCCU was revoked by Australian Prudential Regulation Authority (APRA) in 2002 owing to their limited funds to sustain business activities (Ahmad and Hassan, 2009). However, a positive omen for Islamic financial institutions was the existence of several similar elements in the Australian community-based banks (especially being operated in the smaller town) and the financial institutions based on Islamic banking model (Halabi, 2000) that may warrant favorable IB prospects. The Islamic financial services are gaining momentum slowly but surely in Australia and several financial institutions like the Citibank, HSBC and National Australian Bank (NAB) are considering provision of Islamic finance services in the country (Ahmad and Hassan, 2009). The latest IB venture is underway in shape of IBA (Islamic Bank Australia), that would become Australia’s first full-fledged Islamic bank (Ahmad, 2019). The IBA has applied for its banking license from APRA, and its application has also been accepted. This is expected that IBA would commence operations in the year 2021 (IBA, 2020) to cater to all those Australians who wish to deal with a banking entity, entailing ethical banking practices, that are in line with Shariah.

30. Islamic Banking in USA and Canada

Islamic finance began its journey in the United States of America when a Californian financial institution named American Finance House LARIBA was established in 1987, it was initiated to offer Shariah-compliant home and auto financing and in addition to this, LARIBA also provided financing on Mudaraba basis to small businesses. HSBC was also among the pioneering financial institutions to offer Shariah-complaint home and auto financing in the US (Khan and Bhatti, 2008b). In 2005, first Islamic banking subsidiary (University Islamic Financial) was formed by the University Bank of Michigan to serve the financial needs of clients as per Shariah-compliant guidelines. As of 2006,
three banks were offering Islamic financial services in the US including Devon Bank, HSBC and University Bank (Tacy, 2006). Catovic (2014) stated that the first regulatory breakthrough for IB initiative in the US was made in 1997 when a proposal for a Shariah-complaint financing transaction by the United Bank of Kuwait (UBK) was approved by the OCC – Office of the Comptroller of the Currency. The concentration of Islamic banking and financial players in USA largely revolves around home financing arrangements, while other investment and financing products are still underdeveloped owing to several factors including low market penetration and absence of regulatory framework (Zyp, 2009; Zinser, 2017). There are currently more than 30 Islamic financial institutions operating in the US (Aldarabseh, 2019), albeit none of these financial institutions is operating as a nationally chartered full-fledged Islamic bank and most of the institutions are offering limited product assortment mainly including home and auto financing services. The prominent names active in the IBF sector include LARIBA (Bank of Whittier), University Islamic Finance (UIF), Devon Bank, and Guidance Residential (Paldi, 2020). This is absolutely imperative for the US to address the supervisory and regulatory challenges impeding the IB progress which not only results in a great opportunity cost but also a failure to realize financial potentials worth millions of dollars (Paldi, 2017; Zinser, 2019).

Canada is a developing Islamic finance market with positive prospects for Islamic banking growth. There are several Shariah-compliant financial offerings being provided by various entities including United Muslim Financial, Al-Ittihad Investment, Habib Canadian Bank, Manzil Bank, Al Yusr, Islamic Co-Operative Housing Corp, Ijara Community Development Corp, Qurtuba Housing Coop, Amana Auto Finance Canada, to name a few. Moreover, there are several conventional financial institutions planning to operate Islamic windows including Canada Mortgage and Housing Corp and Canadian Imperial Bank of Commerce (Maierbrugger, 2020). With a growing need to fund infrastructure projects in Canada, Islamic banking and finance seems an attractive proposition (Natoor, 2017). Another aspect of interest that makes IBF a viable option, as highlighted by a Thomson Reuter’s (2016) report, that Islamic finance concurs with the country’s emphasis towards socially conscious/responsible investments and financing philosophy.

The discussion about Islamic banking outlook in Europe, Australia, USA and Canada may be concluded by asserting that Islamic banking and finance has transformed itself into a global reckoning force and has started to flourish in the above mentioned regions, albeit being Muslim-minority states and territories. The potentials for growth are very high, in the context of attraction of Islamic banking offerings to everyone including Muslims and Non-Muslims, and IB being a banking system having an ethical and socially responsible approach towards investments and financing transactions is surely making waves in the western financial markets.

31. Conclusion and Way Forward

The assessment of global Islamic banking initiative reveals that it has considerably developed in the Middle East region, spreading to global scale from this region to other Asian and European countries owing to the oil-rich and wealthy Gulf and Middle Eastern counties. The dissemination of the Islamic banking setup in countries where Muslims are in minority reflects the power and potential of Islamic banking as a global financial force. However, there is yet much to be done and achieved in especially the European and African regions to ensure a stable progress of IB initiative which is only possible if an integrated and well-coordinated approach is adopted by the stakeholders with a two-pronged strategy entailing the spread of knowledge and awareness of the Islamic banking paradigm on one end and delivering market-competitive and innovative banking and financial
offerings on the other. Based upon apt measures and focused efforts by the concerned stakeholders including the governmental, financial, and regulatory institutions, Islamic banking certainly warrants promising prospects for the global financial and economic landscape.

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