

Growing Trend of Islamic Banking in World Wide

AMM. Mustafa
Senior Lecturer in Economics
South Eastern University of Sri Lanka

and

M. Fathima Rashida

Abstract

The global Islamic Banking industry has undertaken major transformations in the last few years in its mission as boost international competitiveness and to provide a sustainably profitable business model. There are more than 170 Islamic Banks operating around the world now and more than 500 Islamic Financial services institutions worldwide. This robust growth is expected to continue for the future. Currently in many markets, Islamic Banking has evolved from being a niche offering into being part of the mainstream financial services landscape.

At the same time, the competitive condition is being continued, with more Islamic financial services institutions in the marketplace than ever before. The banks, which are currently operating and new market entrants are facing completely different market conditions and need to develop new foundations for differentiation beyond compliance with sharia (Islamic law) to compete or remain successful in the future.

Most of the Islamic Banks are operating within the Middle-East countries; meanwhile universal banks in developed countries have begun to tap the massive demand of Islamic financial products. This paper seeks to analyze the growing trend of Islamic banking around the world with the information of some specific countries.

Key Words: *Islamic Banks, Islamic Financial Services*

Introduction

The growth of Islamic banking has been increasing ever since, not only in terms of number of countries it is operating in but also in term of areas of finance it has ventured in (El Gamal, 2006). Islamic Banking is getting more popular as a miracle among experts by surprising them. Those are banking institutions operating based on the Islamic Law (Sharia). Today all over the world, most of the banks in several countries are changing their banking trend to Islamic Banking way. Because of the speed of Islamic Banking idea spreading in the banking industry and the rate which they have progressed make it worth to study it systematically. Islamic banking is getting popularity, warm welcome, and appreciation also by non-Muslims in Muslim and non-Muslim countries. Although, most of the Islamic banks are within Middle Eastern and/or Emerging countries, many universal banks in developed countries have started to spigot huge demand of Islamic financial products. This also confirms that Islamic banking is as viable and efficient as the conventional banking is (Yudistira, 2003). The basic feature of Islamic banks is “no

interest” or interest free policy. It is not like conventional banking system. Islamic

banks operates operate based on the profit and loss sharing agreements (PLS), while conventional banks operates based on interest income.

Since its inception in the mid-1970s, Islamic banking has emerged from being a position offering to become part of the mainstream financial services landscape. Although there are few official statistics on the size of the market and estimates vary widely, the total volume of Islamic assets is believed to be about US\$500 billion. The first full-fledged Islamic bank in the world is Dubai Islamic Bank. Since that bank’s formation in 1975, the number of institutions operating in line with sharia has mushroomed. Today there are more than 500 Islamic financial services institutions worldwide. In just the past two to three years, more than 50 Islamic financial services institutions have been launched. In particular, the Middle East has witnessed an explosion in the number of these institutions, both banks and nonbanks. For example, Boubayan Bank in Kuwait, Bank Al Bilad in Saudi Arabia,

and, more recently, Noor Islamic Bank and Al Hilal Bank were formed in the United Arab Emirates, while Bank Al Inma is

Some of Islamic Banks which are situated in European countries are:

- United Kingdom: the Islamic Bank of Britain (IBB), the European Islamic Investment Bank (EIIB) – first Islamic investment bank from Europe, the Bank of London & the Middle East (BLME), Securities House (UK), the European Finance House (EFH);
- France: National Bank of Kuwait (NBK), Tejerat Bank (TB), Qatar National Bank (QNB) etc.;
- Germany: the Irani Bank Sepah, KuveytTurk.

The commercial purpose is same to Islamic banking as well as to conventional banking but it needs to operate within the principles. According to the rules of Sharia, Islamic finance products are often based on the principles of risk-sharing and profit-sharing. Common concepts used in Islamic Banks are profit sharing (Mudharabah), safekeeping (Wadiah), joint venture (Musharakah), cost plus (Murabahah) and leasing (Ijarah). Such

nearing operational launch in Saudi Arabia. The total capital of these banks alone is in the region of \$15 billion.

sharing principles can provide acceptable financial returns to investors by providing potential profit in proportion to the risk assumed. This type of structured products can satisfy the demands of investors in the contemporary environment within the guidelines of the Islamic Law. The most active financing provided are in the areas of trade, commodity finance, property and leasing.

Method

Growing Trend of Islamic Banking in the World is a kind of Applications research; especially it is a Pure Research. It used to extend our existing knowledge. In other word, this kind of research is used to update our knowledge and it can be used to future further researches also. Even though it is a Pure Research, we used some techniques like Karl Pearson's Coefficient of Skew to prove that Islamic Banking industry is growing continually worldwide. Karl Pearson's Coefficient of Skew is used to finalize whether to accept a decision or reject it. It was introduced by Karl Pearson. The equation for Karl Pearson's Coefficient of skew is as follows:

$$skp = \frac{3(\text{mean} - \text{median})}{SD} \quad (1)$$

Where;

$$\text{mean} = \frac{\text{sum of the data}}{\text{number of data}} \quad (2)$$

$$\text{median} = \left(\frac{n}{2}\right) \text{th value} \quad (3)$$

$$SD = \frac{\sqrt{\sum (x - \mu)^2}}{N} \quad (4)$$

The *mean* is the average and is computed as the sum of all the observed outcomes divided by the total number of events.

$$\text{mean} = \frac{\text{sum of the data}}{\text{number of data}}$$

In math terms, we use x as the symbol for the mean.

$$x = \frac{1}{n} \sum_{i=1}^n X$$

Where n is the sample size and the x correspond to the observed valued.

The *median* is the middle score. If we have an even number of events we take the average of the two middles. The median is better for describing the typical value.

$$\text{median} = \left(\frac{n}{2}\right) \text{th value}$$

The standard deviation (the square root of variance) gives an idea of how close the entire set of data is to the average value. It can be used to estimate a population's true variance.

$$SD = \frac{\sqrt{\sum (x - \mu)^2}}{N}$$

Here SD meant Standard Deviation.

Karl Pearson's Coefficient of Skew will provide three kinds of results:

1. Normal skew ($skp = 0$)

If the skew value is equal to zero, it is called as normal skew. We can accept or reject the decision taken by the research.

2. Negatively skew ($skp < 0$)

If the skew value is less than to zero, it is called as negative skew.

We can neglect the decision taken by the research.

3. Positively skew ($skp > 0$)

And if the skew value is greater than to zero, it is called as positive skew. Here we can accept the decision which is taken by the research.

The increase in financial services institutions offering Islamic banking

products has raised the level of awareness among customers. Same time, it also has raised the competitive intensity of the market. As a result of this change, Islamic assets have grown between 15 and 20 percent annually for the past five years, making Islamic banking one of the fastest-growing sectors in the global financial services industry. By the end of 2008, the total volume of sharia compliant assets could reach almost \$US500 billion.

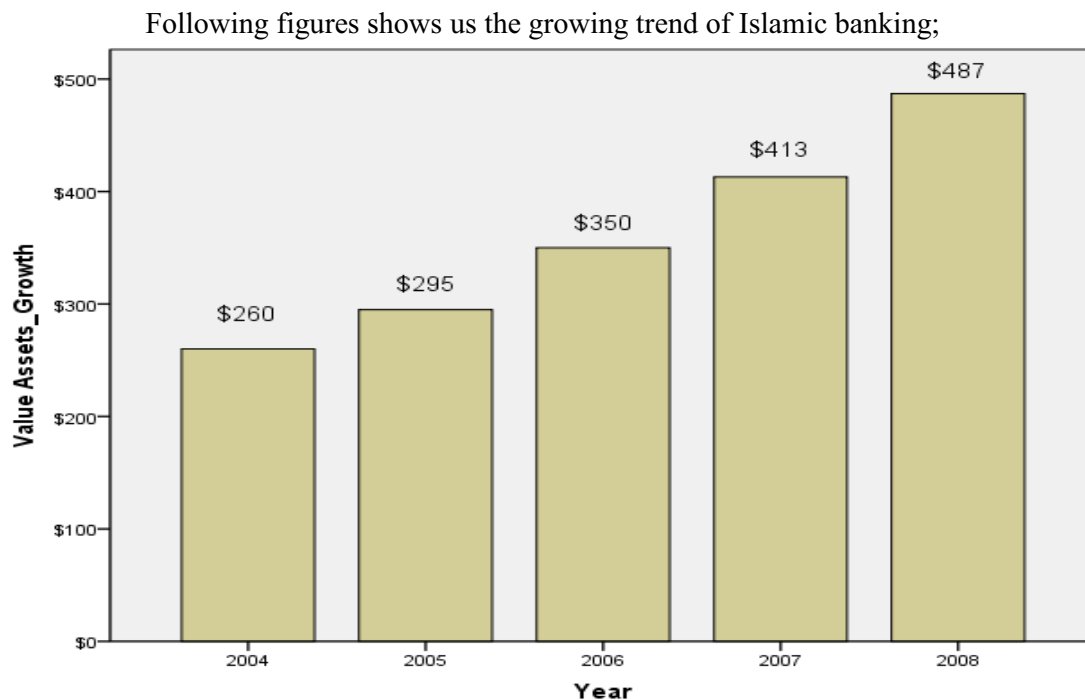


Figure 1: Growing trend of Islamic Banking in US\$ billions (source: Booz & Company)

Above Figure 1 is showing us the growing trend of Islamic Banking in the work for the period of 2004 to 2008 (for 5 years). And we can see that the growing pattern is continually increasing.

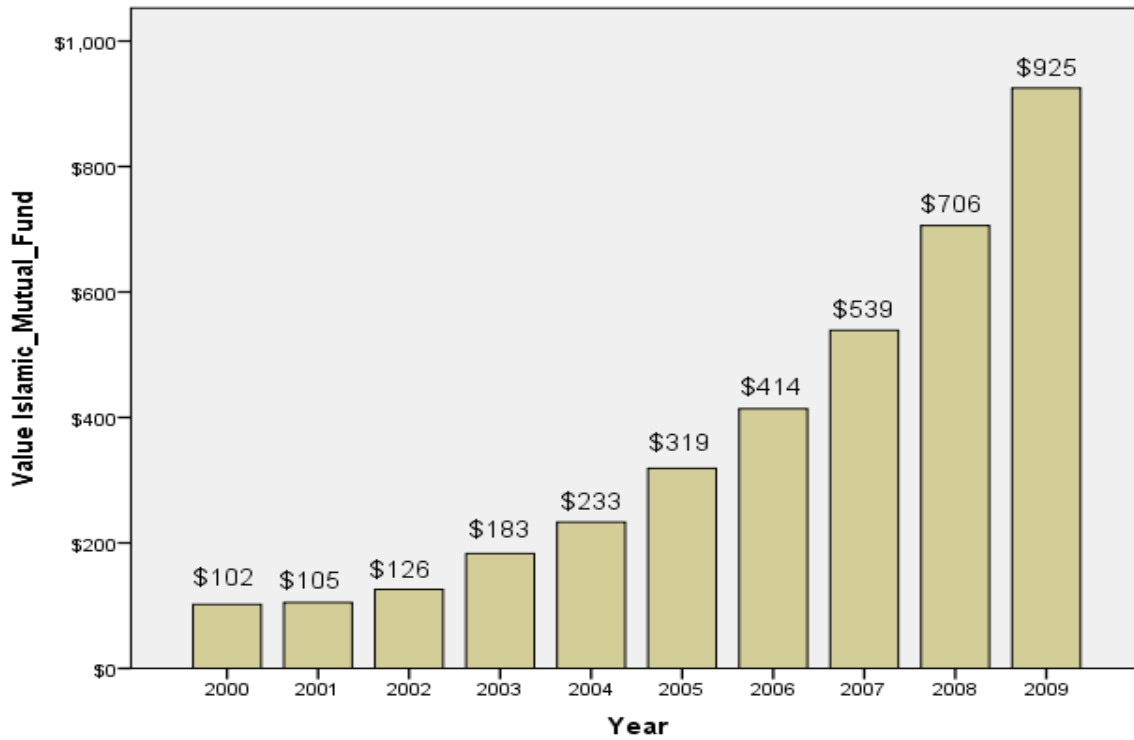


Figure 2: Growing trend of Islamic Mutual Funds (source: Booz & Company)

Figure 2 is representing the Islamic Mutual Funds. It shows a continuous growth from 2000 to 2009.

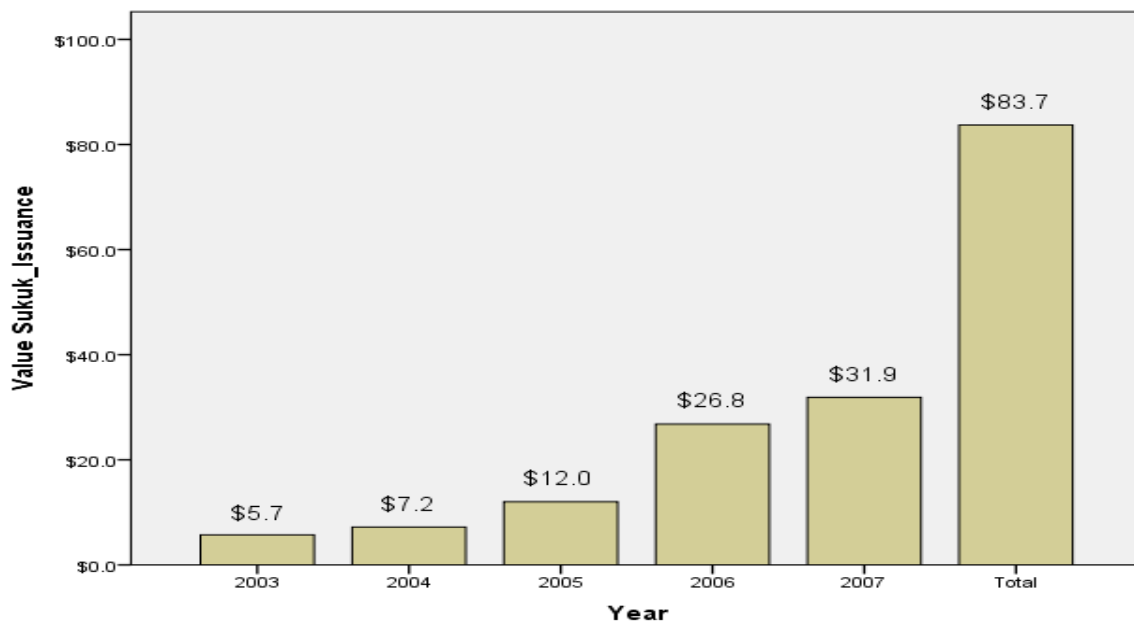


Figure 3: Growing trend of Sukuk Issuance in US\$ billions (source: Booz & Company)

Above Figure 3 is representing the growing trend of Sukuk Issuance for the period of 2003 to 2007. And we can see that as like other three graphs, the Sukus also continuously increasing.

Result

Figure 1, Figure 2 and Figure 3 are showing the way how the Islamic finance: Islamic Assets, Islamic Mutual Funds and Sukuk are moving for some period of time worldwide. It summarizes the details in US billion dollars. With that the following

table representing summary of the mean, median, standard deviation and skewness of above mentioned Islamic Finances. We can see the trend and make decisions based on that. We will see the comparison in the discussion section.

	Mean	Median	Standard Deviation	Skewness
Islamic Assets	\$361.00	\$350.00	\$91.184	.452
Islamic Mutual Funds	\$365.20	\$276.00	\$280.696	1.020
Sukuk	\$27.883	\$19.400	\$29.3428	1.783

Table 1: Mean, Median, Standard Deviation and Skewness of Islamic Finance

Discussion

Figure 1 representing the growing trend of Islamic Assets worldwide. It representing the time period of 2004 to 2008. We can clearly notice through the figure that the Islamic Assets are continually increasing. And Figure 2 is representing the trend of Islamic Mutual Funds worldwide. It is representing the findings for the period from 2000 to 2009. It also clearly shows there is a growing way or trend is going on in Islamic Mutual Funds worldwide. With these two finding, if we see the Figure 3 which is about Sukuk or in other words syndicated lending based on Mudharabah

or Ijara. Figure 3 is prepared for the time period of 2003 to 2007. In these period of time the Sukuk also increasing continually without any change in the trend. In Table 1, we represent the details about mean, median, standard deviation and skewness of the Islamic Finance which are Islamic Assets, Islamic Mutual Funds and Sukuk. This gives the results in one sight.

And if we noticed the Karl Pearson's Skewness of these three Islamic Finance factors each of them are having the value which is more than zero: Islamic Assets is .452, Islamic Mutual Fund is 1.020 and

Sukuk is 1.783. According the Karl Pearson's theory of Skewness, if the skewness value is greater than zero it is a positive value and we can accept the decision for which we have done the test. According to this we can accept that Islamic Banking is operating in a growing trend in the world. With this knowledge, we can study more about Islamic Banking by comparing it with conventional banks, efficiency in Islamic Banking, challenges which are facing by Islamic Banks in European countries and much more.

Conclusion

This research paper is completely about the growing trend of Islamic Banking worldwide. Currently there are more than 170 Islamic Banks and more than 500 Islamic Financial services institutions available in the world. Islamic Banks is one of the famous research topics among economist for last few years. This paper is

helping us to get an idea about the Islamic Banks and how it is ongoing in the world. What is the trend of it. Currently most of the people not only the Muslims but also non-Muslims are getting interest about Islamic Banks and them also willing to keep a hand with Islamic Banks. Because of this, European countries like USA, Germany and more are adding Islamic Banking policies in their conventional banks and they build some separate Islamic Banks also to serve people. This research just giving the idea about the growing trend of the Islamic Banking and with the base of this we can do more research and improve our knowledge. Such areas as comparing Islamic Banks with conventional banks, efficiency in Islamic Banking, challenges which are facing by Islamic Banks in European countries and much more.