An Introductory Study of Islamic Banking Sector in World Wide

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Introduction

The growth of Islamic banking has been increasing ever since, not only interms 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, Boubyan 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 nearing operational launch in Saudi Arabia. The total capital of these banks alone is in the region of $15 billion.

The commercial purpose is same to Islamic banking as well as toconventional 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 (ljarah). Such 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.

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 introduce by Karl Pearson. The equation for Karl Pearson's Coefficient of skew is as follows:

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

Where;

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

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

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

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.

Following figures shows us the growing trend of Islamic banking;

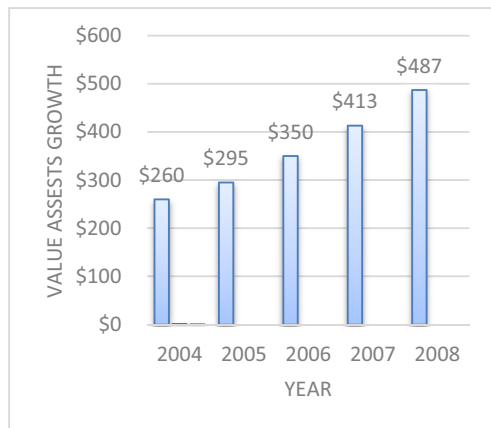Figure 1: Growing trend of Islamic Banking in US$ billions (source: Booz & Company)

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.
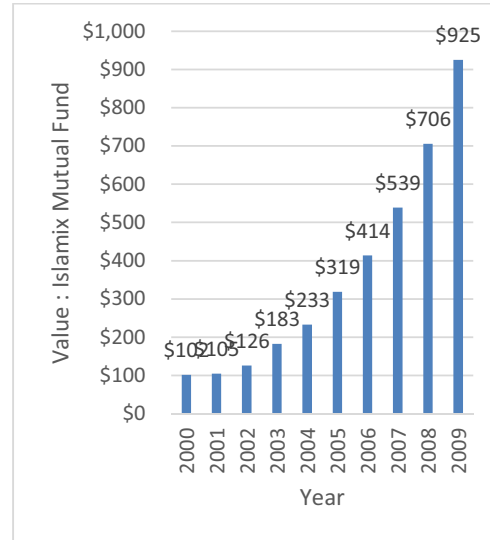
Figure 2: Growing trends of Islamic Mutual Funds (source: Booz & Company)
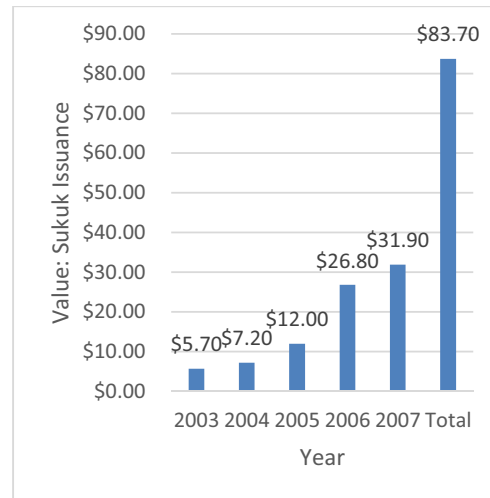Figure 2 also shows a continuous growth from 2000 to 2009.

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

Figure 3 also shows like other three graphs, the Sukus also continuously increasing.

Result / Discussion

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. And we can tel that based on the three figures, there is a clear cut idea arising that there is a continuous growing trend in the Islamic Banking sector.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	Med	SD	Skw
Islamic Assets	$361	$350	$91.184	.452
Islamic Mutual Funds	$365.2	$276	$280.696	1.02
Sukuk	$27.883	$19.4	$29.3428	1.783

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

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.

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