Islamic Banking and Finance: History Development
2. Islamic Banking and Finance: History and Development

Some Issues

History of IBF
Development of IBF - Overview -
History and Development of IBF in Bahrain

Full Fledged IB vs. IB windows
• Word ‘bank’ comes from the word ‘banco’

- A table or a bench on which Italian money-changers used to display their monies and records and conduct their transactions
History of Islamic Banking and Finance

- Arabic financial and economic system pre-Islam
  - Trading based arrangements were common
    - Bay’ al-musawamah (bargaining)
    - Bay’ al-muzayadah (auctioning)
    - Bay’ al-amanah (trust sale)
      - Al-murabahah (resale with profit)
      - Al-tawliyyah (resale at cost)
      - Al-wadiyah (resale at loss or below cost)
History of IBAF - (2)

- Barter trade was common
- *Al-sarf* (money exchange)
  - Lack of standardization – for e.g., 10 grams of gold in coin form = 15 grams of gold in bracelet form
- Institutionalization of *riba*
- Widespread *gharar* and *maysir*
- Monopoly, fraud and economic injustice was common
History of IBAF- (3)

• With the advent of Islam,
  – Eradication of *riba* institutions and practices
  – Eradication of *gharar* transactions
  – Institutionalization of fair and equitable markets
    • No monopoly, fraud
    • Standardization of money and commodity exchanges
      – *Hadith* on the six commodities
  – Islamization of many business organizations and institutions
    • *Mudarabah, musyarakah, salam, muzara’ah* (sharecropping or partnership in agriculture), *musaqah* (irrigation)
  – New organizations and institutions were introduced
    • *Zakah, waqf* and *manihah*
    • *Baitul-mal*
The first attempt to establish IB was in the 1950’s – in the rural area of Pakistan.

- Pious landowners deposits their funds without interest rewards.

- Credit was advanced to other poorer landowners for agricultural improvements.

- Although there was no shortage of borrowers, for the depositors, it was a once and for all effort.

- Depositors took considerable interest on how the money was loaned out.
Mit ghamr Islamic Savings Bank started in Egypt by El-Naggar
- Based on German saving bank
- Purpose to mobilize the idle savings of the majority of Muslim within the Syariah and to provide halal returns on their saving as well.
- El-Naggar was an academic himself
- Managed the staff
The role of the bank (El-Naggar, 1974)

a) An efficient intermediary between the supply and demand of capital

b) Act as one educational centre for economic efficiency, saving education and banking habit, and

c) Set a dynamic factor in mobilizing the idle capital for investment, reducing hoarding and the problem of capital formation
### the Number of Depositors and Their Average Deposits in Mit-Ghamr Islamic Saving banks

<table>
<thead>
<tr>
<th>Year</th>
<th>No. of Depositors</th>
<th>Growth in %</th>
<th>Average Deposit Per Saver</th>
<th>Growth in %</th>
</tr>
</thead>
<tbody>
<tr>
<td>1964</td>
<td>17560</td>
<td>-</td>
<td>2.33</td>
<td>-</td>
</tr>
<tr>
<td>1965</td>
<td>30404</td>
<td>73</td>
<td>6.29</td>
<td>170</td>
</tr>
<tr>
<td>1966</td>
<td>151998</td>
<td>400</td>
<td>5.79</td>
<td>-1</td>
</tr>
<tr>
<td>1967</td>
<td>251152</td>
<td>65</td>
<td>7.28</td>
<td>26</td>
</tr>
</tbody>
</table>
## Mit-Ghamr Islamic savings Bank's branches Between 1963-1967

<table>
<thead>
<tr>
<th>Branch Name</th>
<th>Opening Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Mit Ghamr</td>
<td>5/7/1963</td>
</tr>
<tr>
<td>2. Sharbine</td>
<td>14/08/1965</td>
</tr>
<tr>
<td>4. Dakerous</td>
<td>9/10/1965</td>
</tr>
<tr>
<td>5. KasrnAl Ayni</td>
<td>14/10/1965</td>
</tr>
<tr>
<td>6. Zefite</td>
<td>9/2/1966</td>
</tr>
<tr>
<td>7. Al-Mahallah</td>
<td>24/07/1966</td>
</tr>
<tr>
<td>8. Misr Al-Jadidah</td>
<td>23/07/1966</td>
</tr>
<tr>
<td>9. Belqaa</td>
<td>1/10/1966</td>
</tr>
<tr>
<td>Year</td>
<td>KFH</td>
</tr>
<tr>
<td>------</td>
<td>-----</td>
</tr>
<tr>
<td>1980</td>
<td>94</td>
</tr>
<tr>
<td>1981</td>
<td>68</td>
</tr>
<tr>
<td>1982</td>
<td>51</td>
</tr>
<tr>
<td>1983</td>
<td>42</td>
</tr>
<tr>
<td>1984</td>
<td>34</td>
</tr>
<tr>
<td>1985</td>
<td>39</td>
</tr>
<tr>
<td>1986</td>
<td>36</td>
</tr>
<tr>
<td>1987</td>
<td>28</td>
</tr>
<tr>
<td>2000</td>
<td>24</td>
</tr>
<tr>
<td>2001</td>
<td>21</td>
</tr>
<tr>
<td>2004</td>
<td>21</td>
</tr>
</tbody>
</table>
TOP ISLAMIC FINANCIAL INSTITUTIONS
<table>
<thead>
<tr>
<th>Region</th>
<th>2007</th>
<th>2006</th>
<th>% change</th>
</tr>
</thead>
<tbody>
<tr>
<td>GCC</td>
<td>178,129.55</td>
<td>127,826.55</td>
<td>39.35%</td>
</tr>
<tr>
<td>Non-GCC MENA</td>
<td>176,822.17</td>
<td>136,157.64</td>
<td>29.87%</td>
</tr>
<tr>
<td>MENA total</td>
<td>354,951.72</td>
<td>263,984.19</td>
<td>34.46%</td>
</tr>
<tr>
<td>Sub-Saharan Africa</td>
<td>4,707.98</td>
<td>3,039.32</td>
<td>54.90%</td>
</tr>
<tr>
<td>Asia</td>
<td>119,346.46</td>
<td>98,709.56</td>
<td>20.91%</td>
</tr>
<tr>
<td>Australia/Europe/America</td>
<td>21,475.72</td>
<td>20,300.24</td>
<td>5.79%</td>
</tr>
<tr>
<td>Global total</td>
<td>500,481.88</td>
<td>386,033.31</td>
<td></td>
</tr>
</tbody>
</table>

Source: Maris Strategies & The Banker
<table>
<thead>
<tr>
<th>Rank 2007</th>
<th>Country</th>
<th>Shariah-compliant assets ($m)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Iran</td>
<td>154,616.28</td>
</tr>
<tr>
<td>2</td>
<td>Saudi Arabia</td>
<td>69,379.15</td>
</tr>
<tr>
<td>3</td>
<td>Malaysia</td>
<td>65,083.37</td>
</tr>
<tr>
<td>4</td>
<td>Kuwait</td>
<td>37,684.47</td>
</tr>
<tr>
<td>6</td>
<td>Brunei</td>
<td>31,535.19</td>
</tr>
<tr>
<td>5</td>
<td>UAE</td>
<td>35,354.36</td>
</tr>
<tr>
<td>7</td>
<td>Bahrain</td>
<td>26,251.86</td>
</tr>
<tr>
<td>8</td>
<td>Pakistan</td>
<td>15,918.21</td>
</tr>
<tr>
<td>9</td>
<td>Lebanon</td>
<td>14,315.82</td>
</tr>
<tr>
<td>10</td>
<td>UK</td>
<td>10,420.47</td>
</tr>
<tr>
<td>11</td>
<td>Turkey</td>
<td>10,065.96</td>
</tr>
<tr>
<td>12</td>
<td>Qatar</td>
<td>9,459.71</td>
</tr>
<tr>
<td>14</td>
<td>Bangladesh</td>
<td>4,331.90</td>
</tr>
<tr>
<td>15</td>
<td>Egypt</td>
<td>3,852.86</td>
</tr>
</tbody>
</table>

Source: The Banker
## TOP 20 INSTITUTIONS BY SHARIA-COMPLIANT ASSETS

<table>
<thead>
<tr>
<th>Rank</th>
<th>Institution</th>
<th>Country</th>
<th>Shariah-compliant assets $m</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Bank Melli Iran, Tehran</td>
<td>Iran</td>
<td>35,493.32</td>
</tr>
<tr>
<td>2</td>
<td>Bank Saderat Iran, Tehran</td>
<td>Iran</td>
<td>34,840.09</td>
</tr>
<tr>
<td>3</td>
<td>Takaful IBB Berhad</td>
<td>Brunei</td>
<td>31,535.19</td>
</tr>
<tr>
<td>4</td>
<td>Al Rajhi Bank</td>
<td>Saudi Arabia</td>
<td>28,093.12</td>
</tr>
<tr>
<td>5</td>
<td>Bank Mellat, Tehran</td>
<td>Iran</td>
<td>25,128.62</td>
</tr>
<tr>
<td>6</td>
<td>AmIslamic Bank Berhad</td>
<td>Malaysia</td>
<td>22,263.25</td>
</tr>
<tr>
<td>7</td>
<td>Kuwait Finance House, Safat</td>
<td>Kuwait</td>
<td>21,836.22</td>
</tr>
<tr>
<td>8</td>
<td>Bank Tejarat, Tehran</td>
<td>Iran</td>
<td>18,945.38</td>
</tr>
<tr>
<td>9</td>
<td>Dubai Islamic Bank, Dubai</td>
<td>UAE</td>
<td>17,544.98</td>
</tr>
<tr>
<td>10</td>
<td>Blom Bank</td>
<td>Lebanon</td>
<td>14,219.78</td>
</tr>
<tr>
<td>11</td>
<td>Bank Sepah, Tehran</td>
<td>Iran</td>
<td>13,913.53</td>
</tr>
<tr>
<td>12</td>
<td>Parisian Bank</td>
<td>Iran</td>
<td>10,483.10</td>
</tr>
<tr>
<td>13</td>
<td>Abu Dhabi Islamic Bank</td>
<td>UAE</td>
<td>9,881.67</td>
</tr>
<tr>
<td>14</td>
<td>HSBC Amanah</td>
<td>United Kingdom</td>
<td>9,725.00</td>
</tr>
<tr>
<td>15</td>
<td>National Commercial Bank Ltd, Jeddah</td>
<td>Saudi Arabia</td>
<td>9,175.97</td>
</tr>
<tr>
<td>16</td>
<td>Bank Rakyat</td>
<td>Malaysia</td>
<td>7,784.77</td>
</tr>
<tr>
<td>17</td>
<td>Al Baraka Banking Group</td>
<td>Bahrain</td>
<td>7,625.83</td>
</tr>
<tr>
<td>18</td>
<td>Banque Saudi Fransi</td>
<td>Saudi Arabia</td>
<td>7,302.54</td>
</tr>
<tr>
<td>19</td>
<td>Maybank</td>
<td>Malaysia</td>
<td>6,290.68</td>
</tr>
<tr>
<td>20</td>
<td>Samba Financial Group</td>
<td>Saudi Arabia</td>
<td>5,911.88</td>
</tr>
</tbody>
</table>

Source: The Banker
History of IBAF – (4)

• Islamic banking and finance (IBF) is relatively new compared to conventional banking and finance

• Earliest Islamic financial institution can be traced to a savings institution based on profit sharing in Mit Ghamr, Egypt in 1963

• Oil boom in the 1970s triggered a rapid growth of Islamic financial institutions

• Establishment of the first Islamic bank (Dubai Islamic Bank in the UAE) in 1975, as well as the Islamic Development Bank (IDB) in Saudi Arabia

• First attempt in the West to establish Islamic banking was in Luxembourg in 1978
Islamic Banking and Finance Today- (1)

• Islamic scholars have profound influence on the practice of Islamic banking and finance
  – No equivalence in other religions

• Muslim governments’ approach in relation to IBF differs
  – Transformation of the entire internal financial system to Islamic

• Iran, Pakistan, Sudan
Islamic Banking and Finance Today- (2)

- Embrace Islamic banking as a national policy concurrently with conventional banking and finance (dual track banking)
  - Bahrain, Brunei, Indonesia, Kuwait, Malaysia, Turkey, UAE

- Neither support nor oppose Islamic banking
  - Egypt, Yemen

- Actively discourage separate Islamic banking presence
  - Saudi Arabia*, Oman
### History of Islamic Financial Institutions - Overview

<table>
<thead>
<tr>
<th>Year</th>
<th>Location</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>1950’s (Pakistan)</td>
<td>A small experimental Interest-Free Bank was established in a rural area. Loans extended to other poor landowners for agricultural improvements. This had no lasting impact.</td>
<td></td>
</tr>
<tr>
<td>1963-1967 (Egypt)</td>
<td>Mit-Ghamr established by El-Naggar. Followed the model of German Savings Bank. Successful but later ended due to some political reasons.</td>
<td></td>
</tr>
<tr>
<td>1963 (Malaysia)</td>
<td>Pilgrims Fund Corporation (Tabung Haji). Objectives: to enable Malay Muslims to save gradually to support their expenditure during Hajj and for other beneficial purposes. Started with 1281 registered members with RM46,000 (1963) - 4 million depositors with more than USD2 billion (2004)</td>
<td></td>
</tr>
<tr>
<td>1971 (Egypt)</td>
<td>Nasser Social Bank was established as a social bank and not as profit-oriented institutions. It was to serve the ‘unbankable’ low income group.</td>
<td></td>
</tr>
<tr>
<td>Year</td>
<td>Location</td>
<td>Event Description</td>
</tr>
<tr>
<td>--------</td>
<td>-------------------</td>
<td>------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>1975</td>
<td>Jeddah, Saudi Arabia</td>
<td>IDB was established as an Inter-governmental institution to foster the economic and social development of its member countries.</td>
</tr>
<tr>
<td>1975</td>
<td>Dubai, UAE</td>
<td>Dubai Islamic Bank was established as a first major Islamic commercial bank. Started the series of IFIs.</td>
</tr>
<tr>
<td>1977</td>
<td>Sudan</td>
<td>Faisal Islamic Bank of Sudan was established.</td>
</tr>
<tr>
<td>1977</td>
<td>Egypt</td>
<td>Faisal Islamic Bank of Egypt was also established.</td>
</tr>
<tr>
<td>1978</td>
<td>Jeddah, SA</td>
<td>Centre for Research in IE in KAU was established. The first institution specializing in IBF.</td>
</tr>
<tr>
<td>1979</td>
<td>Bahrain</td>
<td>Bahrain Islamic Bank was established.</td>
</tr>
<tr>
<td>1983</td>
<td>Malaysia</td>
<td>Bank Islam Malaysia Berhad was established.</td>
</tr>
</tbody>
</table>
### History of Islamic Financial Institutions - Overview (3) : Asia and Western Countries

<table>
<thead>
<tr>
<th>Year</th>
<th>Event</th>
</tr>
</thead>
<tbody>
<tr>
<td>1973</td>
<td>Philippines Amanah Bank was established. Designed to serve the special banking needs of the Muslim community. Not strictly and Islamic Bank as the interest-based operations still co-exist.</td>
</tr>
<tr>
<td>1978</td>
<td>Islamic Finance House was established.</td>
</tr>
<tr>
<td>Today</td>
<td>Citibank, Merill Lynch, HSBC, Barkley’s offering Islamic Financial services. IBBBritain, Lariba (America) were established. Some other IFIs.</td>
</tr>
<tr>
<td>1991</td>
<td>Recognizing the need for standards. Accounting and Auditing organization for IFI was established.</td>
</tr>
<tr>
<td>2002</td>
<td>IFservices Board (IFSB) was established. Sets to and disseminates the prudential and supervisory standards and core principles that are in compliance of Shariah.</td>
</tr>
<tr>
<td>Today</td>
<td>Several other IFIs were established to create, regulate and support the emerging IFIs. i.e- International Islamic Rating Agency (IIRA), etc.</td>
</tr>
</tbody>
</table>
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Islamic Banking and Finance Today

• Total Assets : USD 400-500 billion
• Total IFIs : 275 in 75 countries.
### Development of Islamic Banking and Finance in Bahrain

<table>
<thead>
<tr>
<th>Year</th>
<th>Key Milestone</th>
</tr>
</thead>
<tbody>
<tr>
<td>1973</td>
<td>Since its establishment, Bahrain Monetary Agency (the successor of Bahrain Currency Board), has been promoting the country as an International Financial Centre and encouraging major international financial institutions as their regional base.</td>
</tr>
<tr>
<td>1979</td>
<td>Bahrain Islamic Bank was established to provide commercial banking services.</td>
</tr>
<tr>
<td>1981-1982</td>
<td>Dar-Almal, a holding company, was established in Switzerland and owning a group of banks in some Muslim countries which they then established Shamil Bank of Bahrain in 1982 (former Faisal Islamic bank)</td>
</tr>
<tr>
<td>1983</td>
<td>Al-Baraka Islamic Bank followed suit. Established Islamic Banks in many countries.</td>
</tr>
</tbody>
</table>
## Development of Islamic Banking and Finance in Bahrain

<table>
<thead>
<tr>
<th>Year</th>
<th>Key Milestone</th>
</tr>
</thead>
<tbody>
<tr>
<td>1990s</td>
<td>Turning point in the development of Islamic Banking in Bahrain. The BMA, issued a total of 8 banking licenses to diverse group of Institutions to enable them to pursue Islamic Banking services.</td>
</tr>
<tr>
<td>Today</td>
<td>Bahrain has the highest concentration of IFIS. 2/3 of Islamic Financial Institutions operating in GCC countries are based in Bahrain.</td>
</tr>
</tbody>
</table>
Islamic Banking and Finance in Bahrain Today : Some Facts

• Global leader in Islamic finance with highest concentration of IFIs in Middle East. 24 IB and 11 Takaful companies.

• Remarkable Growth of Islamic Banking with Total assets of USD 1.9 billion (2000) to USD 10.3 billion (2006)- an increase of 400 percent.

• Market share of IB as a percentage of Total Banking Assets
Internationalization of Islamic Banking and Finance

- Numerous countries in this region have began development of Islamic banking and finance
  - **Indonesia**: set up first Islamic bank in 1992
  - **Brunei**: established Islamic Bank of Brunei in 1993
  - **Singapore**: recently announced that it envisions to be regional hub for Islamic financial services
  - **Thailand**: approved draft bill for the establishment of an Islamic bank in 2001
Development of Islamic Banking and Finance in Other Countries

Gulf Cooperation Council (GCC) States

- Bahrain
  - Bahrain Monetary Agency (BMA) is the first central bank to develop and issue prudential regulations for Islamic banks
  - Bahrain has highest concentration of Islamic financial institutions (28 Islamic banks, 16 takaful operators)
  - 2/3 of Islamic financial institutions operating in GCC countries are based in Bahrain
  - Rapid growth of 45% (in 2003) with total asset base reaching USD4.2 billion
  - Poised to become centre for development of software tailored for Islamic banking, collaborations with Microsoft
  - Appears oversupplied with Islamic banks, mergers are likely in the future
  - Proposed setting up of an international Islamic stock exchange
  - Proposed establishment of an Islamic rating agency
Gulf Cooperation Council (GCC) States

- Saudi Arabia
  - *Shari’ah* is the law of the land but it does not have an Islamic banking law
  - There is only one banking law, which does not exclude Islamic banking operations
  - Growing preference for Islamic banking – 95% of all new financing is Islamic finance-based (Q1 2004)
  - All conventional Saudi banks have Islamic windows
  - Islamic Jurisprudence (*Fiqh*) Academy based in Jeddah is the largest representative body of *Shari’ah* scholars, is represented by all Muslim countries
  - Presence of many Western banks providing Islamic banking and financial services
- Saudi British Bank, Saudi American Bank, Saudi Hollandi Bank, Citigroup, etc.
Gulf Cooperation Council (GCC) States

- United Arab Emirates (UAE)
  - UAE is a federation of 7 states (emirates) – Abu Dhabi, Dubai, Sharjah, Ajman, Umm Al Qawain, Fujairah, Ras Al Khaimah
  - Region experiencing high growth rates in Islamic finance (20%)
  - Islamic financial products constitute 25% of total banking transactions
- Dubai
  - Dubai Islamic Bank (DIB) considered to be the first Islamic bank in the world, third largest Islamic commercial bank in the Gulf
  - To attract global financial institutions, Dubai International Financial Centre (DIFC) was established and operates as a financial free zone
  - World-class regulator and regulatory regime in the Dubai Financial Services Authority (DFSA)
  - Dubai Metal and Commodities Centre (DMCC)
    - Provides Islamic finance packages to companies specializing in the gold and diamond trade
    - Provides gold-linked Islamic financing, giving investors the option to receive payments denominated in gold bullion as an alternative to the USD
Gulf Cooperation Council (GCC) States

- Kuwait
  - Oil-rich Kuwait has huge financial resources (10% of global oil reserves is in Kuwait)
  - Oil & gas sector off limits to foreigners but they may invest in the banking sector
  - Central Bank of Kuwait (CBK) announced the enactment of law on Islamic banks which, it is hoped, will lead to more banks adopting Islamic banking practices
  - Kuwait Finance House (KFH)
    - One of the largest Islamic banks in the world with assets of USD10.1 billion
    - KFH’s operations cover the entire range of Islamic banking operations including Murabahah and leasing activities, trade, project and consumer finance, direct investments, real estate investments and treasury operations
Gulf Cooperation Council (GCC) States

- Qatar
  - Qatar has the world’s third largest gas reserves
  - Qatar is among the world’s wealthiest nations per person (GDP per capita at USD29,800)
  - Qatar Islamic Bank is the largest Islamic bank in Qatar
  - It was reported that Qatar and Morocco have been considering the creation of a bank, through joint efforts, that would operate under Shari’ah

- Oman
  - Oman has not shown interest in establishing Islamic banks
  - Although, Bank Muscat, the leading bank in Oman, offers Islamic financial services
West Asia / Africa

- Yemen
  - Islamic banks in Yemen include Tadamon Islamic Bank, Islamic Bank of Yemen for Finance and Investment, Saba Islamic Bank and Yemen & Bahrain Bank

- Egypt
  - Mit Ghamir Bank of Egypt, established in 1963, is sometimes cited as the first Islamic bank in the world
  - Due to political reasons, the bank was taken over by the National Bank of Egypt, a conventional bank
  - Nasser Social Bank (1971) operates autonomously under the Ministry of Social Affairs and Insurance as an interest-free commercial bank although it does not bear any specific reference to Islam

- Iraq
  - Islamic financial institutions include Rafidain Bank and Iraqi Islamic Bank for Investment and Development
  - In 2002, Iraq and Sudan entered into a banking cooperation agreement, which will help Iraq to get familiarized with Sudan’s
West Asia / Africa

- Sudan
  - In 1984, the whole banking system in Sudan was made totally *Shari’ah*-based
  - The Sudanese Court of Appeal, in 1984, held that the charging of interest is subject to criminal prosecution
  - The Islamic banking sector in Sudan has witnessed encouraging growth
  - Most of the Islamic banks have been established in cooperation with foreign capital
  - Some Islamic financial institutions operating in Sudan include Tadamon Islamic Bank, Al Shamal Islamic Bank, Faysal Islamic Bank Sudan, Sudanese Islamic Bank, Al Baraka Bank Sudan and Al Salam Bank
  - To enhance corporate governance, Sudanese authorities have enforced Basel requirements, implemented AAOIFI disclosure standards and revised the on-site inspection manual
West Asia / Africa

- Jordan
  - New Islamic banking provisions were introduced in 2000
  - Jordan Islamic Bank for Finance and Investment is a main player

- Turkey
  - Turkey’s population is 99% Muslim but officially a secular country
  - Islamic banks are called Special Financial Houses (SFH’s)
  - Subject to same regulations (capital, compliance, risk management) as conventional counterparts
  - Confidence in SFH’s damaged due to sharp market volatility since the Nov 2001 financial crisis
  - To instill depositors’ confidence, the authorities established an Islamic deposit insurance scheme
West Asia / Africa

- **Iran**
  - Since the 1979 Islamic Revolution, Iran’s economy and financial system have been functioning in compliance with the *Shari’ah*.
  - Interest on all financial assets was replaced by a 4% maximum service charge, and 4-8% profit rate (according to the type of economic activity).
  - Interest on deposits converted to “guaranteed minimum profit”
  - “Participation certificates” substituted interest-bearing bonds
  - Economically, Iran has good prospects
    - Inflow of funds post-Sept 11
    - High oil prices
    - Iran is a net international creditor with low debts and a healthy current account surplus
  - Prior to 2003, supervision of interest-free institutions was delegated to the Interior Ministry and the police force
    - Lack of adequate prudent supervision led to exploitative banking and trading activities which were at the expense of deprived segments of the population
West Asia / Africa

Pakistan

- Entire financial system is being transformed to make it compliant with Islamic principles
- From 1985, no banks were allowed to accept any interest bearing deposits and all existing deposits became subject to PLS (Profit and Loss Sharing) rules
- Landmark decision by Pakistan Supreme Court banning interest in all its forms and nomenclature on 23 Dec 1999
- Pressure has been building on Pakistan’s financial services to comply with the Shari’ah, esp. since a number of Islamic parties won seats in Parliament in 2002
- In 2004, State Bank of Pakistan permitted conventional commercial banks to establish Shari’ah-compliant non-banking finance companies (NBFC’s)
- Islamic financial institutions in Pakistan include Meezan Bank, Habib Bank, Muslim Commercial Bank, Bank Al Falah and AG Zurich
South and South-East Asia

• Indonesia
  – In 1994, the government launched *Bait al-Maal wa at-Tamwil* (BMT), a co-operative bank whose target market is petty traders and hawkers
  – PT Manajeman Musyarakah Indonesia (MMI) was established to function as the “People’s Shari’ah Credit Bank”
  • MMI would assist in bringing together affluent investors and (poor) small-scale Muslim enterprises via a variety of savings/credit/profit-sharing arrangements
  – In 2003, the government announced it would soon issue a law on Islamic banks, that would emphasize the needs of small and medium enterprises (SME), thus contributing to the reducing of poverty
  – In Dec 2003, *fatwa* of Indonesian *Ulumas* Council – receiving of interest from any financial institution is forbidden, conditional on the availability of an Islamic alternative
  – There are 2 full-fledged Islamic banks in Indonesia, namely, Bank Muamalat Indonesia (BMI) and Bank Mandiri Syariah
Development of Islamic Banking and Finance in Other Countries (12)

South and South-East Asia

- **Bangladesh**
  - Bangladesh Bank (central bank of Bangladesh) has a wing to monitor operational activities of Islamic banks, but its scope is limited
  - The government is considering the introduction of separate rules and regulations to govern the country’s Islamic banking
  - The largest Islamic bank in Bangladesh is Islami Bank Bangladesh Ltd (IBBL)

- **Brunei**
  - Assets of Islamic banks account for 30% of all banking assets
  - Brunei aims to become an Islamic offshore financial centre as well as an offshore centre for high net worth Muslim individuals
  - An important Islamic financial institution in Brunei is the Islamic Bank of Brunei Bhd (IBB) – previously the Island Development Bank Bhd
Development of Islamic Banking and Finance in Other Countries (13)

South and South-East Asia

• Thailand
  – Previously, Thai Muslims (mostly living in the southern region of Thailand) have been depositing funds across the border in Malaysian banks due to lack of such facilities in Thailand
  – In 2003, a government-run Islamic Bank of Thailand was established
  – Thailand has been procuring help from countries like Malaysia, Qatar and Bahrain to help develop the IBF sector in Thailand

• Philippines
  – Muslims comprise 8.5% of the population
  – The government is considering developing Islamic banking to serve the country’s minority Muslim population
  – Currently there is only one Islamic bank – Al Amanah Islamic Investment Bank of the Philippines
South and South-East Asia

• Singapore
  – Muslims make up 14% of the total population
  – Islamic banking is still at its infancy, although Singapore has expressly stated that it wants to be the regional hub for Islamic finance
  – Small domestic market, but showing innovation and initiative
    • Automated calculation and payment of zakah from Islamic deposit accounts
    • Monetary Authority of Singapore (MAS) awarding Islamic bond issuances the same concessionary tax treatment given to conventional financing
• India
  – 11% of the population are Muslims
  – There are over 300 Islamic financial institutions operating as Islamic cooperative credit societies, Islamic welfare societies and financial associations
Development of Islamic Banking and Finance in Other Countries (15)

Western Countries

- United Kingdom (UK)
  - There is an urgent need and a large demand for Islamic retail products for the vastly under-served Muslim communities in non-Muslim countries in the West
  - There are 3 million Muslims in the UK
  - Financial Services Authority (FSA) regulates Islamic banking in the UK
  - Four main issues facing Islamic banks in the UK – calculation of capital, accounting and disclosure standards, role of the Shari’ah board, and liquidity management
  - Islamic Bank of Britain (IBB) is the first stand-alone Islamic retail bank in the UK

- Prior to IBB, Muslims relied on Middle Eastern banks with branches in the UK
  - British-based banks offering Islamic financial services include Lloyds TSB, HSBC, Barclays Bank & ANZ Grindlays (London)
Western Countries

- Europe
  - Muslim population in Europe (minus Turkey) estimated to be 13.8 million
  - Financial institutions offering Islamic financial services in Europe include,
    - Bosnia Bank International (Bosnia)
    - Islamic Bank International of Denmark Copenhagen (Denmark)
    - BNP Paribas (France)
    - Commerzbank and Deutsche Bank (Germany)
    - ABN Amro (Holland)
    - Samba Capital Management International (Luxembourg)
    - Badr Bank (Russia)
    - Dar Al Maal Al Islami Trust and Union Bank of Switzerland (Switzerland)
Western Countries

- United States (US)
  - Muslim population in the US estimated to range between 6-12 million
  - Average per capita income of American Muslims higher than national average (USD35,000 – USD45,000)
  - General Council of Islamic Banks and Financial Institutions (GCIBFI) educate regulators and Treasury officials on Islamic finance
  - Among financial institutions in the US involved in Islamic finance are Al Baraka Corp., Al Manzil Islamic Financial Services, Lariba Bank, Goldman Sach’s Islamic banking subsidiary and the Muslim Credit Union
  - The Office of the Comptroller of the Currency (OCC), in addressing the economic substance of contemporary Islamic banking products, concluded that they are functionally equivalent to secured lending and hence permissible under existing banking law
Islamic banking windows or Full-fledged Islamic bank?

- **Islamic banking windows**
  - Refers to conventional banks that offer Islamic banking products and services using their existing infrastructure, including staff and branches

- **Full-fledged Islamic bank**
  - Refers to a bank dedicated to the offering of Islamic banking products and services
  - In Malaysia, a number of these banks are set up as a subsidiary to conventional banks
  - Operations and management are clearly separated between the subsidiary Islamic bank and the parent conventional bank
Islamic banking windows or Full-fledged Islamic bank? — (2)

• Given that Bahrain advocates dual banking (Islamic and conventional), in effect there are three general categories of banking
  – Conventional banking
  – Full-fledged Islamic banks
  – Conventional banks operating Islamic banking windows under the Islamic banking scheme (IBS)

• In relation to Islamic banking, there have been arguments in support of both full-fledged Islamic banks and conventional banks operating Islamic banking windows.
• In relation to Islamic banking, there have been arguments in support of both full-fledged Islamic banking as well as Islamic banking windows