



# An Assessment of Islamic Banking in Asia, Europe, USA, and Australia

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## Abstract

The paper reviews the progress of Islamic banking in two major regions, including Asia and the Western world. The paper offers an inclusive discussion of Islamic banking initiatives in several countries of the globe, specifically the countries from the Middle Eastern region, Europe, Australia, Asia, and North America. The discussion for Asian countries includes Saudi Arabia, Iran, UAE, Qatar, Bahrain, Kuwait, Turkey, Egypt, Malaysia, Oman, Indonesia, Pakistan, and Bangladesh. The paper also appraises the development of the Islamic banking setup in the Western world. The Islamic banking status in the west covers the following countries: United Kingdom, Italy, Australia, Luxembourg, France, Germany, Canada and the USA. The review of Islamic banking in the two major world regions reflects a progressive Islamic banking setup. The paper entails a qualitative approach to evaluate the Islamic banking progress in various countries by extracting data from different sources, including central banks and other important financial and regulatory institutions. The study affirms that the Islamic banking paradigm emerged and flourished from the Asian states, specifically Middle Eastern and Asian countries, including Egypt, Bahrain, Qatar, UAE, Malaysia, Pakistan and Iran. The findings also suggest that the Islamic banking model has progressed gradually in European and other countries like Australia, the USA and Canada, which warrants a promising potential for the global Islamic banking sector.

**Keywords:** Islamic Banking, Islamic Finance, Growth, Development, Shariah-Compliant Banking, Global Islamic Banking

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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 in offering solutions to the global economic woes (Zaman, 2013). 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). The splendid growth of Islamic banking and finance and its progress in various regions of the world (Khan & Bhatti, 2008) 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 contemporary economic and financial



needs. The resilience and progress of Islamic banking are reflected by the key facts and performance parameters of Islamic banks compared to their conventional interest-based counterparts (Islamic Financial Services Board, 2019).

Islamic banking (IB) is a comprehensive Islamic economic framework subsystem. Although the Shariah-compliant banking system per se is a relatively young discipline, the theoretical background and basis of Islamic or Shariah-complaint banking and financial system are strongly pinned upon the Islamic economic framework, which is as old as the religion of Islam itself. As a code of life, the Islamic faith guides all aspects of life, including the economic and social dimensions. The early Islamic financial initiative can be traced back to the second half of the 19<sup>th</sup> century, when the roots of the Islamic financial system started to grow in various forms (Aqib Ali, 2014). Primitive Islamic banking activities emerged in various parts of the world, including the Arabian and sub-continental regions (Wilson, 1983). The earliest venture underpinned Islamic banking principles evolved from Egypt in the 1960s, establishing a financial arrangement named *Mit Ghamr*. Another Islamic finance initiative in Malaysia, *Tabung Haji* was also formalized in the 1960s (Ahmad, 1987). Although it was still in its infancy at that time, Islamic banking gradually began to evolve slowly and steadily. It was in 1970 that the Islamic banking initiative took off with the development of several Islamic financial institutions (Aziz, 2005), including the first international Islamic financial entity in the form of the Islamic Development Bank (Wilson, 2000). Currently, Islamic banking has attained a global reckoning, with astounding success in both the Muslim states and non-Muslim countries, including the regions in Europe, UK, and Africa. Based to the (Islamic Financial Services Board, 2019), aggregated Islamic banking across the globe accounts for approximately 72% of all Islamic financial offerings, with huge assets of around US\$ 1.6 Trillion. There are a total of 1389 Islamic financial institutions worldwide (Thomas Reuters, 2018), operating in more than 110 countries (Ayub, 2017). Of these, 505 financial institutions are Islamic banks, including the Islamic windows of conventional banks.

## 2. Methodology

The methodology employed by the researcher is qualitative in nature. The data was gathered using various secondary sources, including reports, publications, working papers and online sources.

The data, including the facts and figures, were collected from the central banking institutions and various countries' governmental and financial regulatory authorities. The paper reviews the developments and growth of Islamic banking in various countries from the four major world regions, including Asia, Europe, Australia, and North America. The paper evaluates the information in terms of descriptive and theoretical perspectives by stating the statistics and various data and information, including numbers and percentages of growth, market share, etc., precisely and exactly as provided in the available data sources. Concerning the article's structure, Islamic banking was reviewed in three world regions, i.e. Asia, Europe and North America. Based on many countries in Asia and due to the greatest involvement of the Islamic banking paradigm in the Asian regions, especially the Middle East and Gulf States, more detailed discussion and space is being assigned to Asian countries followed by other countries in Europe and other regions. The paper attempts to provide a descriptive analysis of Islamic banking development in the pertinent countries from the subject global territories.

## 3. Islamic Banking in Asia

Islamic banking origins are rooted in the Asian region, especially in the Middle East. The country-wise situation of the Islamic banking sector in the Asian states is described as under:

### 3.1 Islamic Banking in Malaysia

Malaysia has attained the position of a leader in global Islamic banking intuitive. The country has achieved remarkable progress based on a holistic strategy regarding Islamic banking and financial model by attaining accomplishment at various fronts; ranging from the deployment of a potent regulatory regime to acquiring support from stakeholders; from government facilitation to ensuring smooth formulation and execution of policies, from the enactment of effective Shariah governance framework to ensuring a scrupulous level of Shariah supervision for IBF (Islamic Banking and Finance) institutions, Malaysia's progress has been exemplary. Since the origin of an institution named *Tabung Haji* in the 1960s, Islamic finance



growth in Malaysia has been systematic and stable (Al Nasser & Muhammed, 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). Four full-fledged Islamic banks are in the country, namely Bank Islam Malaysia Berhad, MBSB Bank Berhad, Bank Rakyat, and Bank Muamalat Malaysia Berhad (Asni, 2019). Currently, 16 Islamic banks and Islamic banking windows (Bank Negara Malaysia, 2020). Kayadibi (Kayadibi, 2010) stated that a master plan for the financial sector was released by Malaysia's central bank (BNM) to promote the country as a regional center of IBF. Malaysia has a total of USD 204 Billion of Islamic banking assets, with IB having a 31.2% share of total banking assets being the third largest IB market in the world (Malaysian International Islamic Financial Center, 2018).

### 3.2 Islamic Banking in Pakistan

The Islamic banking origins in Pakistan may be dated back to the late 1970s when the global rise of Islamic banking initiatives took place in the second half of the 1970s. 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 eliminate *riba* (interest) in financial transactions (Khan & Bhatti, 2008). The first Islamic bank in the country was Meezan Bank, and two other Islamic banks, including Bank Islami and Dubai Islamic Bank, were established later; six fully-fledged Islamic banks were operational in the country as of 2006. 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 the Islamic financial system is implemented, and interest is eliminated from the economy by 2027 (Bhatti, 2022). Presently, five full-fledged Islamic banks are functioning in the country, including Al-Baraka Bank, Meezan Bank, MCB Islamic Bank, Bank Islami, and Dubai 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 (State Bank of Pakistan, 2019). The market share of Islamic banking assets and deposits in Pakistan's overall banking industry is 15.2% and 16.9%, respectively (State Bank of Pakistan, 2020), having 3250 outlets of Islamic banking branches with aggregated assets of around USD 20 billion.

### 3.3 Islamic Banking in Bangladesh

Islamic banking has been in operation since the first half of the 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 when 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). In 1997, Bangladesh Bank mobilized all Islamic banks functioning in the country to conduct an “Islamic Banks Consultative Forum (IBCF)”, to bring forward the pertinent significant matters related to the Islamic banking sector's progression to address these issues aptly to warrant a bright future for the IB industry in Bangladesh. Although there are no separate Islamic banking regulations or law and Islamic banks are monitored and supervised by independent Shariah boards/councils (Rashid, Hassan & Ahmad, 2009); but to assure progressive growth, legal framework is one of the vital areas that require the attention of the concerned stakeholders (Nabi et al., 2015). According to Bangladesh Bank (the central bank of Bangladesh), Islamic banking in the country has been consistently showing a steady growth (Bangladesh Bank, 2018) and currently Islamic banking assets represent 24% of total banking assets in the country. There are currently 8 fully-fledged Islamic banks while sixteen conventional banks are operating their Islamic banking windows and branches totaling 1252 Islamic banking branches with total staff of 34,128 (Bangladesh Bank, 2019).

### 3.4 Islamic Banking in Indonesia

Indonesia is the largest Muslim country in the world and has a 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 current state of Islamic banking is not encouraging, yet the government resolves to gradually develop the IB sector. After the first Islamic bank was established in the country – Bank Muamalat Indonesia, in 1991 by the intuition taken by Indonesian Ulema Council (MUI), Muslim intellectuals and entrepreneurs (Bank Muamalat, 2020). Indonesia's central bank (Bank Indonesia) issued a comprehensive strategy to develop



and bolster the IB sector in 2008. As per the latest information as of December 2019, released by the Indonesian Financial Services Authority (Otoritas Jasa Keuangan, 2019), there are 14 full-fledged Islamic banks in the country. In addition to the full-fledged Islamic banks, 22 Islamic business units of conventional banks are also operating to offer Shariah-compliant banking services. In collaboration with other stakeholders and governmental support, Bank Indonesia is optimistic about the promising future of Indonesia's Islamic banking industry (Bank Indonesia, 2020). Some issues need to be addressed like the lack the political will and slack social attitudes towards the diffusion and acceptance of Islamic banking in the country (Sari, Zakaria & Zahri, 2016) and at state-level, the IB industry has lacked adequate regulation support (Abduh & Omar, 2012), if these matters among others are dealt with, the industry would certainly grow and thrive. According to Maulia (Maulia, 2019), the Indonesian authorities plan to increase the market share of Islamic banking by 20% by 2024.

### *3.5 Islamic Banking in Saudi Arabia*

IB sector in the country functions parallel to the conventional banking sector. The banking industry in Saudi Arabia is regulated and governed by SAMA – Saudi Arabian Monetary Authority. Saudi Arabia has the second-largest banking sector among the Gulf Cooperation Council (GCC) states regarding the value of its assets, while the Kingdom's Islamic banking industry is also among the leading ones in the region (Khan et al., 2018). The Saudi banking sector consists of 14 foreign and 12 local banks. Three of the 12 local banks hold a joint 45% share of the total banking market. The Saudi banking sector has to its credit, the second largest share of 20.6% (Saudi Arabian Monetary Authority, 2019) of the total global Islamic banking assets in the world, while at the 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). Of these dozen local banks, four banks are fully dedicated Islamic banks, including Al-Bilad Bank, Al-Rajhi Bank, Bank Al-Jazira and Al-Inma Bank, while the remaining eight banks are providing both product offerings, i.e. both Shariah-compliant as well as conventional banking services. SAMA, with the cooperation and collaboration of the Capital Market Authority and Ministry of Finance is working meticulously to provide an effective framework for regulation and control of the IB sector to stabilize and promote it. And the view of (Nichita, Kagitci & Vulpoi, 2013) about the Saudi IB industry is that it will 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, 2018), Saudi Arabian IB sector growth prospects are very much brighter.

### *3.6 Islamic Banking in Iran*

Iran introduced the implementation of Islamic banking in the country at state level in 1979. 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 & 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 Jomhuri Islami Iran. The primary private bank that started to operate in the country named Bank Karafarin was later followed by several other banks that were granted licenses by the country's central bank – Bank Markazi. The banks in Iran are largely classified into two categories i.e., government owned and private banks (Parveen, Zodeh & Ahmad, 2015). Currently, the banking sector of the country comprises thirty banking institutions including eight government-owned banks and eighteen private banks (Central Bank of the Islamic Republic of Iran, 2019). The major banks in Iran are Bank Mellat, Eqtesad Novin, Export Development Bank, Maskan Bank, and Bank Pasagard. As reported by IFSB's IFSI Report 2019, Iran has a staggering 32% share of global assets in Islamic banking sector and in addition to this merit; Iran is the premier country to implement Islamic banking at the state level by transforming the entire banking setup to Shariah-compliant banking and financial system.

### *3.7 Islamic Banking in Bahrain*

The country is considered the hub of the global IBF industry. The premier Islamic bank in the country, Bahrain Islamic Bank, was set up in 1979. The Bahrain Monetary Agency (BMA), the country's central bank and financial sector regulator, played an instrumental role in fostering the Islamic banking industry (Al-Sadah, 2005). Bahrain is host to numerous IFIs (Islamic finance institutions) and other related institutions, including regulatory, standard-setting, academic and research



institutions that include the Bahrain Institute of Banking and Finance (BIBF), International Islamic Financial Market (IIFM), Islamic International Rating Agency (IIRA), and Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI). Several dedicated Islamic retail and investment banks, including some off-shore banking institutions, drive Bahrain's Islamic banking industry. The powerful IB initiative in Bahrain is spearheaded by the Central Bank of Bahrain (CBB), formerly the Bahrain Monetary Agency (BMA). The remarkable Islamic banking growth has been one of the reasons Bahrain is one of the global leaders in the Islamic finance sector, with total assets of USD 27.8 billion as of November 2018 (Central Bank of Bahrain, 2019). According to the latest facts and figures released by CBB (Central Bank of Bahrain, 2019), the Islamic banking sector grew from 24.7 Billion US Dollars in 2014 to 30.7 Billion US Dollars as of 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.

### *3.8 Islamic Banking in Kuwait*

Many IFIs reside in Kuwait, which also has to its credit an institution named The Kuwait Finance House (KFH), the oldest established Islamic financial institution setup in 1977. KFH, the premier Islamic bank of Kuwait, is a pioneer in the global Islamic banking landscape. Regarding assets, KFH is the biggest Islamic bank in the world. The KFH services are available in Kuwait and several other countries, including Saudi Arabia, Bahrain, Turkey, United Arab Emirates, Germany and Malaysia (Kuwait Finance House, 2018). According to IFSB (Islamic Financial Services Board, 2017), Kuwait's impressive 39% Islamic banking share in the country's total banking assets is among the best in the world. The vigour and strength of the Kuwaiti Islamic banking sector are 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 the largest in terms of assets (Ali, 2011). The aggregated number of Islamic bank branch networks in Kuwait is presently 600, with an approximate staff of 12000 personnel, and consolidated IB assets are around 96 Billion USD. Kuwait is among the top six countries in Islamic finance progression, mainly because of its powerful and ever-growing Islamic banking industry.

### *3.9 Islamic Banking in the United Arab Emirates*

The country is home to DIB – Dubai Islamic Bank, which was established in 1975, and was one of the torch-bearer Islamic financial intuitions. The bank is currently the largest Islamic bank in the UAE, operating with 90 branches country-wide (Dubai Islamic Bank, 2019). DIB spearheaded the evolution of the global Islamic banking initiative by being the world's first fully-fledged Islamic bank and the second-largest Islamic bank in the world (Dubai Islamic Bank, 2020). There are seven fully dedicated Islamic banks in the UAE, while conventional banks also offer Islamic banking services through their Islamic windows (Tabash & Dhankar, 2014). Akoum (Akoum, 2017) stated that there are 47 Islamic financial institutions, including Islamic banks, Islamic windows of conventional banks, and Islamic finance companies. According to reports by Thomson Reuters (Thomas Reuters, 2018) and IFSB, UAE is the fourth largest country in terms of its global IB assets. The country's central bank started designing and devising its Islamic Finance Development Framework in 2018 to boost the progression of the IB sector. The objective of the Central Bank of United Arab Emirates (CBUAE) is to develop the legal and regulatory framework for the industry to support the sector effectively and to make the UAE the leading Islamic financial services hub (Central Bank of UAE, 2018). In 2018, the Higher Shariah Authority was established 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 pertinent stakeholders (Central Bank of UAE, 2018).

### *3.10 Islamic Banking in Qatar*

Qatar is among those few countries where the share of Islamic banking is substantial compared to the share of the conventional banking sector; the Islamic bank's market share out of the total market share in Qatar is approximately a quarter, 26.6% to be exact. According to Ibrahim (Ibrahim, 2015), there are 18 banks in Qatar, with four Islamic, seven local and seven foreign banks. There are currently four dedicated Islamic banks operating in Qatar, Qatar Islamic Bank (QIB) being the first, oldest and largest one, which was set up in 1982. Qatar Islamic Bank holds an overall 11% share of the total market share among all banks and a 42% share of the Islamic banking market in Qatar (Qatar Islamic Bank, 2020). Qatar Central Bank (QCB) is playing a very active role in the development of the Islamic banking and finance sector by devising and



designing effective regulatory reforms (Tlemsani, 2015), such as the implementation of a central Shariah committee for Islamic banks to bring consistency in the Islamic finance industry (Qatar Financial Centre Regulatory Authority, 2017). According to QCB (Qatar Central Bank, 2016), Islamic banks in Qatar normally function under three regulatory institutions, including the Qatar Central Bank, Qatar Financial Center Regulatory Authority and Qatar Financial Markets Authority, and 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, to accomplish and ensure robust growth of Islamic banking sector in the future.

### *3.11 Islamic Banking in Egypt*

The country is credited with the oldest Shariah-compliant Islamic financial entity established in 1963; it was essentially a savings association, a funds pool named Mit Ghamr. Islamic banking commenced in Egypt in the shape of two models, first with the establishment of public/private fully dedicated Islamic banks and secondly with the establishment of Islamic banking branches of interest-based banks. The first full-fledged Islamic bank in Egypt was Nasser Social Bank. Egypt currently has 40 banks, of which three are fully-fledged Islamic banks, including Bank Faisal, Bank Al Barakah and Abu Dhabi Islamic Bank (ADIB). In contrast, others provide Islamic banking services (Mubasher, 2018). Egypt has a very low Islamic banking market share as the challenges for the IB sector are many, including the lack of separate laws governing the 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 (Fayed, 2013; Smith & Zawya, 2018).

### *3.12 Islamic Banking in Turkey*

In Turkey, “participation banking” is used for Islamic banking (Ergeç & Kaytancı, 2017). Although the share of Islamic or participation banks in Turkey is meagre at around 5%, at 4.90% to be precise (Zawya, 2018) but there are strong prospects that the industry will surge in the coming years because a comprehensive law for regulating the sector shall be issued by Turkey’s banking and regulatory and supervision agency – the BDDK. The plans are in the pipeline to lift the share of IB to 25% in the coming years by launching a mega Islamic bank in collaboration with Indonesia and some other countries that have shown interest in collaborating on the project. The proposed bank shall act as a central bank and a lender for global Islamic banking and financial institution (Daily Sabah, 2017). Presently, there are two state-run and three private Islamic banks, operating in Turkey, namely the Albaraka, Kuveyt Turk, Ziraat Katilim, Turkiye Finans and Vakif Katilim; collectively having more than 15,650 employees and 1100 branches (Birinci, 2019).

## **4. Islamic Banking in Europe**

In the Western world, Islamic banking emerged and has been embraced as a lucrative and alternative financial proposition transcending religions and regions. The underlying motive for introducing and offering Islamic banking services in the Muslim-minority European countries was to realise the financial potential by attracting Muslims living in these regions (Cattelan, 2013). The country-wise status of the Islamic banking sector in western countries is discussed hereunder:

### *4.1 Islamic Banking in United Kingdom*

The Islamic banking history in the UK dates back to 1982 when Al-Barakah International Bank (AIB) was set up and initiated operation as a fully-fledged Islamic bank in the country. Still, later its license was revoked by the Bank of England and till 2004, Islamic banking ceased to exist in the country (Abdullahi, 2016). UK has proven to be a lucrative Islamic banking proposition with a large Muslim population and a client-driven IB model. In 2004, the Islamic Bank of Britain was established as the country’s premier retail Islamic bank. Afterwards, the IB industry progressed encouragingly and soon, the UK was positioned as one of the top Islamic finance hubs outside the Muslim world by anchoring many Islamic banking and financial institutions (Sobol, 2015). The IB setup in the country thrived because of various favorable aspects, including the attraction of IB products and services to Muslims 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 & Ali, 2019). There are currently more than 20 banks offering Shariah-compliant financial services in the UK (Firdaus, 2019). According to TheCityUK (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). The IB prospects in the United Kingdom are pretty promising, as ratified by the facts and figures. TheCityUK reported that the aggregated bank assets of the UK's top Islamic banks are approximately 4.7 billion dollars, highlighting the UK as the center of Islamic finance in western countries.

#### *4.2 Islamic Banking in Luxembourg*

Luxembourg has a proven status as 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 named The Islamic Banking System in 1978 (Mausen et al., 2019). Apart from this, Luxembourg has also attained many firsts in the Islamic finance domain by being the first European country to authorize Islamic insurance in 1983 (El-Galfy & 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 (Ernst & Young, 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 (Tan, 2015) mentioned that plans were underway to establish a fully-fledged Islamic bank (Eursibank) in 2014, with a proposal from various stakeholders from the Gulf region, but the idea could not materialize. The plans for the bank revived as the Islamic finance group (Eurigroup) 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 in transacting within an ethical banking framework in the European region (Merani, 2018).

#### *4.3 Islamic Banking in Germany*

One of the largest world economies and having a large Muslim population and a huge business and trade volume with the Gulf and Middle Eastern countries (Aichbichler, 2009), slate Germany a positive prospect for Islamic banking setup. Volk and Pudelko (Volk & 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 (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 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. Bahrain's Al-Baraka group is delivering digital Islamic banking services. Most Germans are Christian, but many people believe in no religion, approximately 37% according to Volk and Pudelko's study (Volk & Pudelko, 2016) conducted regarding Islamic banking in Germany. They asserted that a lower degree of religiosity does not necessarily imply that interest in Islamic banking would also be on the lower scale, as discussed in (Haron, Ahmad & Planisek, 1994; Gerrard & Cunningham, 1997) that religion is not to be overemphasised for banking selection. To accelerate the IB sector in Germany, Soyly (Soyly, 2019) recommended wooing Muslims and non-Muslim prospects to ensure relatively productive efforts to acquire customers from this unexploited IB market in Europe.

#### *4.4 Islamic Banking in Italy*

According to Iannazzone (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. Like several other European countries, Italy has also issued some guidelines regarding the comparability of Islamic banking services with conventional banking mechanics to deliberate the IB initiative in the country. The subject guidelines were released by the Bank of Italy in 2010. Yet, the supervisory challenges and regulatory matters need to be settled to allow Shariah-compliant banking services to gain momentum in the Italian banking system (Brugnoni, 2008). Biancone (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. Still, it could not materialise due to the issues created by the global financial crisis. Padovani (Padovani, 2016) stated that the 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 of ethical banking services. According to Padovani (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 entering the Italian banking industry; Padovani further emphasised 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.

#### *4.5 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 (Aqib Ali, 2022); this would also assist them to lure funds from investors in oil-rich Middle Eastern countries (Hajjar, 2019). France has the 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 (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 most 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 & Atta, 2009). The IB sector may be boosted by addressing regulatory and supervisory issues (Khan & 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).

### **5. Islamic Banking in Australia**

The prime initiative of Islamic finance to serve the financial needs Muslim community in Australian can be traced back to 1989 with the establishment of MCCA (Muslim Community Cooperative Australia). 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, 2003). In 2001, another arrangement (Iskan Finance) to provide Islamic home financing was established (Rammal & 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 & Hassan, 2009). Nevertheless, a promising prospect from Islamic financial perspective was the operational existence of various similar elements in the already established community-based Australian banks (especially those that were functioning in relatively small town) and these financial entities as pinned upon Islamic banking philosophy shaped to be a favorable IB proposition in Australia. The Islamic banking and financial offerings are gathering momentum and moving in the positive direction slowly and steadily in Australia. There are various banking and financial institutions including HSBC, Citibank, and NAB – National Australian Bank that are planning to provide Islamic finance products in the country to cater to the banking and financial needs of the Muslim population in the region. 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). This is expected that IBA would very soon commence operations (Islamic Bank Australia, 2020), Islamic Bank Australia acquired its license in 2022 and is now working on building its products, systems and processes (Islamic Bank Australia, 2023), to cater to all those Australians who wish to deal with a Shariah compliant banking entity, entailing ethical banking and financial products and practices.



## 6. Islamic Banking in USA & Canada

The Islamic finance initiative began its journey in the United States in the late 1980s, establishing a Californian financial entity named LARIBA – American Finance House in 1987 to provide Shariah-compliant auto and home financing. Furthermore, LARIBA also provided Mudaraba-based financing to various small and medium business enterprises. Moreover, HSBC was among the premier financial entities in the US to offer Islamic financing for consumer customers to fund their house and car financing needs. As of 2006, three banks offered Islamic financial services in the US, including Devon Bank, HSBC and University Bank (Tacy, 2006). University Islamic Financial was established as the first Islamic banking subsidiary by the University Bank of Michigan in 2005 to cater to customers' financial needs in line with Shariah guidelines. Catovic (Catovic, 2014) stated that the first regulatory breakthrough for the 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. Other investment and financing products are still underdeveloped owing to several factors, including low market penetration and the absence of a 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 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 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 potential worth millions of dollars (Zinser, 2019; Paldi, 2017).

Canada signals a progressive Islamic financial market with promising prospects of IBF growth. Various institutions include Al Yusr, Islamic Co-Operative Housing Corp, Al-Ittihad Investment, United Muslim Financial, Amana Auto Finance Canada, Habib Canadian Bank, Ijara Community Development Corp, Qurtuba Housing Coop, Manzil Bank, to name a few, which are offerings Shariah-compliant financial services. Furthermore, many conventional banking and financial entities plan to functionalize Islamic financial windows, including the Canadian Imperial Bank of Commerce and Canada Mortgage & Housing Corp. With a growing need to fund infrastructure projects in Canada, Islamic banking and finance seem attractive (Aqib Ali & Hussain, 2017; Nator, 2017). Another consideration that makes IBF a viable option, as highlighted in Thomson Reuter's report (Thomas Reuters, 2016), is that Islamic finance concurs with the country's emphasis towards socially conscious/responsible investments and financing philosophy.

## 7. Conclusion and Future Prospects

Islamic banking is an attractive proposition not only for Muslims but for everyone who is interested in a financial model with an ethical and moral underpinning along with a socially responsible perspective towards dealings and transactions. The evaluation of Islamic banking model in various countries of the world revealed that Islamic banking and finance paradigm has grown from strength to strength in Asian regions especially in the Middle Eastern countries from where it spread to other parts of the globe including Asian and European countries. The encouraging progress of Islamic banking in both Muslim as well as non-Muslim states demonstrates the promising potential of Islamic banking as an alternative financial system. Islamic banking certainly has great future prospects in the global financial landscape. Islamic banking, based upon the principles of equity and fairness in financial dealings would certainly help the countries to attain financially inclusiveness, economic stability and prosperity. However, concrete measures and coordinated efforts are required from the stakeholders like the financial, governmental, and regulatory institutions, to realize the full potential of Islamic banking in the world.



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