RISE OF ISLAMIC BANKING
IN WESTERN EUROPE

OWAIS KHALID

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DEPARTMENT OF
MANAGEMENT SCIENCES,
BAHRIA UNIVERSITY,
KARACHI, PAKISTAN
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Abstract

Islamic banks operate under the law of Sharia, the Islamic legal code and they have to find ways to grow and improve performance and compete in an economic environment that is structured in such a way to compete with the West. This research finds the reasons through comparative analysis for the rise of Islamic banking in Western Europe. It provides the efficiency of Islamic banking in Western Europe and investigates the empirical evidence that the Islamic banking industry in the region is profitable, robust, efficient and continuously rising because of higher efficiency levels in a politically stable environment that support financial openness. To look in to all that we’ll need to analyze where it all began which means looking at the way Islamic banking was done from as early as the 8th Century. It is also extremely important to properly understand the reasons of rising from 9/11 attacks at twin towers (USA), the increasing global Muslim population, the good will and fair dealing witnessed in Islamic banking, conventional banks moving towards Islamic banking under different names, global financial crisis and increased oil prices that became the drivers for the rise of Islamic banking in Western Europe. The large big international banks like Societe Generale, BNP Paribas, Deutsche Bank and Standard Chartered have all entered the Islamic banking business. Even accounting and consulting firms like Ernst Young are now offering Islamic financial services however the conclusion of this report is centered on recommendations presented by the researcher on the basis of the information and date that was analyzed.
Acknowledgement

First of all I am grateful to Allah Almighty who gave me courage to complete my thesis Report. It has been a year since I have started my thesis entitled “Rise of Islamic Banking in Western Europe” During this period; many people have contributed to the success of this thesis. I wish to express my gratitude to my advisor Sir Mansoor Zakir for the advice that he provided me throughout the study period, in particular the discussions that we had during my stay at the Bahria University. His maximum effort contributed to the success of this project. I am grateful for the support and co-operation that I have received from department of Management Sciences of the Bahria University. The support of my family was also invaluable in completing this thesis. They all have been on my side through prayer, moral and support. Finally, I wish to express my gratitude to all my teachers in the elementary, secondary, and university education that provided me with a good background for completing this thesis.
CHAPTER NO.1:

PROBLEM AND ITS BACKGROUND
The topic I have chosen for my thesis is ‘The Rise of Islamic Banking in Western Europe’. With the current crisis in the world economies and the recession throughout the world economies it was extremely interesting to investigate whether an alternative system other than conventional banking can exist and be prosperous. Islamic Banking is not a relatively new concept. Islamic banking is a concept based on the Laws of Sharia. Islamic banking flourished predominantly during what is known as the Islamic ‘Golden Age’ in the early 7th century, during this time there was already evidence of capitalist and free markets present in the Caliphate. An early market economy and a rise in commercialism were developed during the 8th century and continued to flourish for the next 400 years, which some refer to as "Islamic Industrialism". Increased circulation of a stable, high-value currency (the dinar) and the integration of previously independent monetary areas was the base of the birth of a dynamic economy. In 1970 a meeting was held between the various Finance Ministries of the world’s Islamic countries in Karachi. Shortly after this the Islamic development bank was formed in 1975 backed by 56 member countries. Dubai Islamic bank was the first modern Islamic bank which opened its doors for the first time in 1975. Currently Islamic Banking is witnessing extraordinary growth with some figures putting it at around 10-15% growth per year, more importantly the signs of future growth of Islamic banking is extremely positive. At present Islamic banks have around 300 institutions spread over 51 countries which highlight the immense scale of the global growth. The Investment funds have also seen a
dramatic growth in Sharia compliant products, as a result it is estimated that a staggering
US$822 billion of sharia-compliant assets are managed by fund managers according to The
Economist which represents around 0.5% of total global wealth as of 2005. According to
CIMB Group Holdings, Islamic finance is the fastest-growing segment of the global financial
system and the sales of Islamic bonds are expected to rise by 24 percent to $25 billion in
2010. In Europe particularly Western Europe (Denmark, France, Germany, Italy, Luxemburg,
Switzerland, Ireland and United Kingdom has seen a very steady growth in Islamic banks and
financial institutions. These countries have fully operational Islamic banks.

References:


http://en.wikipedia.org/wiki/Caliphate

http://en.wikipedia.org/wiki/Western_Europe

http://www.islamicbankingcourses.com/

2. STATEMENT OF PROBLEM

In order to fully understand the rise of Islamic Banking in Western Europe the report will be
analyzing the current conventional banking system, in particular;

Current operation of conventional banking: This report will concentrate on analyzing the
current western banking system, the laws that govern the running of the banks, and the
different state regulatory bodies. This will also highlight the various types of banking
operations present and their role within the whole financial infra-structure.

Current & Historical Issues surrounding Conventional Banking: This segment of this
analysis will highlight some of the significant issues that have led to the sensitive problems in
the economies throughout the world such as un necessary risk taking to further increase
financial gain, the issue of charging interest as a means of income for the banks which is
forbidden in Islamic Banking and the need for tighter controls to be put in place by regulatory
bodies and the IMF to prevent socio economic meltdown.
How does Islamic Banking differ from Conventional Banking: Will look at the components of Islamic banking that differ from conventional banking and the impact they have for example the nonpayment of interest, I will look at the differing ways income is generated by Islamic Banking as opposed to conventional banking. I will round up my analytical research by looking at the reasons for the steady risk of the Islamic banking system in the European countries and whether Islamic banking is indeed a more viable and sustainable way to transact business in the future.

References:


3. SIGNIFICANCE OF STUDY:

I believe that with the current economic crisis in a majority of the world economies it is vital to look for remedies to ensure such an economic crisis is avoided in the future. As part of the remedial analysis, a very important aspect will be assessing the growth of a comparable banking system. The research that carry out will help better understand why Islamic banks are so popular in Europe and analyze the key factors, I believe that this could be a platform
for discussion between various organizations and financial entities in the Pakistani economy and questions such as *Is Islamic banking workable for the Pakistani economy?*, *What lessons can be learned from the rise of Islamic banking for the Pakistani economy?*, *Can the steady progression of Islamic banks in Europe be replicated into the Pakistani economy?* I appreciate that the European and south east-Asian economies are vastly different in operation and regulation, however my research would hopefully highlight the components of the system that need to be altered in order to successfully integrate a fully functional financial alternative to Conventional Banking in Pakistan’s economy.

I strongly believe that with the state of the Pakistani economy at present these are extremely relevant questions that need to be addressed by the leading business entrepreneurs as well as the state.

**4. SCOPE:**

The Study will be concentrated at looking at the Western European economies and their adoption of Islamic banking into their financial environment. I will concentrate in particular at looking at United Kingdom, Germany and Switzerland where Islamic banking is flourishing. I will also look very briefly at the Pakistani economy and its current status with regards to the adoption of Islamic banking into the fabric of the economy. The sources of my information gathering will concentrate at obtaining material from the Internet. However as part of my study will analyze articles and discussions as well as economic reports from various financial institutions. In order to look at the rise of Islamic Banking we’ll need to look at where it all began which means looking at the way Islamic banking was done from as early as the 8th Century, in order to understand that and present the trends present, We’ll also be looking the reports issued on the internet about the future of Islamic banking. As a result the range of research will vary from early 8th century to the present day.

**5. DELIMITATIONS:**
The purpose of this research is to highlight the chances of success of Islamic banking throughout Western Europe by continuous effort and niche marketing and above all Government support is the most important part of it which not only push their economies but open a new market for Islamic banking and help Muslims building their image better which is hurt after 9/11 attacks specially in conservative western European countries like Denmark & France.

6. DEFINATION OF TERMS:

- **Mudarba** (Trust Financing/Partnership: one provides capital while other skills)
- **Musharakah** (Joint venture: Between two or more partners)
- **Ijara** (Leasing: similar to conventional banking except interest payment)
- **Salam** (Advance purchasing by paying full amount)
- **Murabahah** (Sell @ Cost + profit)
- **Sukuk** (Islamic bonds)
- **Hibah** (gift)
- **Takaful** (Islamic insurance)
- **Wadiah** (safekeeping)

References

http://en.wikipedia.org/wiki/Islamic_banking
CHAPTER NO.2:

RESEARCH METHODS
1. RESEARCH DESIGN:

The geographical area of study is Western Europe and research is done in such a way that it will help in comparing the working style, performance, profitability etc.; of Islamic vs. conventional banking. The study investigates perception of Islamic banking in Western Europe and its impact on the banking industry especially after global financial crisis by studying journals, survey reports, bank reports, books, media reports, articles, newspapers, online forums and other online materials. The perception of Islamic banking in the west is that it has funded terrorism or some other negative perception about it. This behavior brings some strict scrutiny and misconceptions for Islamic banking growth and awareness in Western Europe. This negative environment makes work more difficult to bring out the greater positive side of Islamic banking that will bring overwhelmingly accepted in western influenced media society.

2. RESPONDANT OF THE STUDY:
As this report is created through secondary research therefore respondents in this report are considered those survey reports, journals, articles, discussion forums through which data is extracted.

3. INSTRUMENTS:

Comparative analysis is a technique which is used for evaluating operational framework of Islamic banking vs. conventional banking and secondary data will be the source of it.

4. TREATMENT OF DATA/INFORMATION/ANALYSIS:

The information in this report is based on qualitative as well as quantitative data. Tools would be applied on facts and figures such that are reported in the project there is some information which is presented through

- Graphs
- Charts

CHAPTER NO.3:
PRESENTATION
ANALYSIS

RELATED LITREATURE
HISTORY OF ISLAMIC & COMMERCIAL BANKING:

About a century ago when almost all of the Islamic world were colonized by European Countries. Economies and finance are under their control and they control it in a way they & Their allies were benefited only.

As the various European empires started to give independence to states and handed over the regions of power to the Muslims allowing them to create their own standards for economies according to their traditions and religious beliefs. The youngest Islamic state took a serious step to gather Muslims on one platform through calling a meeting of the finance ministers throughout the world. The member countries continued this work in their home countries by involving bankers and businessmen to develop a model which is workable at a mass level and in 1975 the first Islamic bank named Islamic Development Bank (IDB) came in to being whose main purpose was to facilitate inter-Islamic trade to further research, publishing journals, organize seminars, training courses etc. The International Development Bank interacts with international bodies related to banking like International Monetary Fund (IMF), World and Asian development banks, etc. so the member countries will find no problem in dealing with the regional and International economy. IMF issued its first study regarding Islamic finance and since then there have been dozens of research papers issued which shows the sustainability of Islamic Banking. Despite this Islamic finance officials continuously interact with the official standards committee of the Bank of International Settlement (Basel-Switzerland) and other relevant authorities even through the responsibility of resolving any issues rests with the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI).

Conventional Banking has its roots in Italy and blossomed during the Commercial Revolution of (1000-1350). After this the concept of banking started to spread throughout the industrialized empire of Europe and with it became more complex. In the 14th century it moved to Spain and quickly spread to Holland and then settled in England in which the majority of immigrants were Jews. In the beginning there were three different types of banks, International banks, local banks and pawn broking (lending money on portable securities).
The banks gradually started involving themselves in everything from money market speculation to commodities trading and most importantly they started to produce official legal documentation of credit and lending operations. Around the 15th century when King Henry III ruled the British kingdom, interest rates were fixed but people from various other dominant religions of the time (Jews) were allowed to charge 43% interest rate on loans although interest was prohibited by the Churches of the land but still Jews approved the law of legalizing the interest for institutions by bribing the English parliamentarians, Many people began realizing the true potential for profit in charging interest, the Jews started to support their operations and provided most of the capital leaving the English Christians to ‘front’ the operation of lending money.

*Why have Islamic banks been established?*

Although there may be numerous reasons for the establishment of Islamic banks the primary reason was the issue of paying or charging interest which is *haram* (illegal) in Islam and as a result it would be a sin for any Muslim if he’s lending or borrowing money on an interest basis.

*How do Islamic banks differ from commercial banks?*

Commercial banking take “no risk” when lending money and take interest in return or keeping the collateral as a security in case of any loss, where as the teachings of Islam prohibits interest and lends money without any interest “taking risk” and bears loss if there is any but share the return if there’s any profit on a fixed ratio.
Why is Islamic banking so popular?

The main reason of the popularity of Islamic banking is that it balances the relation between the bank and client through risk and profit sharing instead of completely putting the risk at the doorstep of the borrower. If for example the client has liquidity issues then instead of providing the borrower any relief the main priority of the bank is to recover their investment whether through taking over client’s assets, keeping collateral and in the end defaulting the client leaving him no chance to recover from this.

Advantages of Islamic bank versus Commercial banks

- Islamic banking is getting popular day by day as it’s not a closed system which gives services only to any specific class of society but an open type of banking system which gives opportunities to everyone to grow & prosper in the society through risk & profit sharing.
- Interest free loans (pay back only principle amount).
- The whole amount of deposit is returned to client by the Islamic bank at any time the client wants without any deduction or penalties and during the deposit client can enjoy the profit if there is any.
Islamic banks invest their funds on the basis of future expected value of projects where as commercial banks focus is on creditworthiness (debt based financing) or various portfolios that they invest in.

Because of trust on the investor Islamic banking is free from rumors and speculations which these days commercial banking is riddled with.

Islamic banking gives a the borrower the chance to become a stakeholder in both profit and loss, whereas commercial banks only really poses an imposition on the borrower to cease assets when they default payment etc.

Disadvantages of Islamic banking versus Commercial banking

Islamic banks can support only those investors which invest in sectors which are not unlawful (haram). For Example a borrower cannot build a casino or a trade in wine through money gained from the Islamic bank.

The future of Islamic banking in western Europe- Success or not?

Money itself has no value it’s just a form of defining value of any asset. Therefore one cannot generate money from money via fixed interest payment as it creates greed in a society to earn without working. The credit crunch identified the frailties of the Western European and American banking system. These once proud and very respectable institutions were plunged into turmoil. One after another like a deck of card. One after another the Euro-American banks tumbled like a deck of cards. This financial turmoil has questioned some of the fundamentals of commercial banking and has scrutinized the banks willingness to lend its customers ask amounts of money that they cannot afford to pay back in order to make money by charging them interest on the loan. Islamic banking provides a comprehensive solution to this problem by involving lenders and borrowers both in the system to share profit as well as losses which in overall contribute to the society rather than any individual.
Services offered by Islamic Banks:

- Current Account
- Saving Account
- Home Purchase/Mortgage
- Personal finance
- Different Business and Services product etc.

References:

http://www.healyconsultants.com/company-incorporation/islamic-banking.html

http://www.youtube.com/watch?v=G-dxAXR4DXQ&feature=related

http://dinarstandard.com/finance/islamic-banking-%E2%80%93-a-golden-opportunity-for-european-banks/

COUNTRIES WITH SHARIAH FINANCE IN WESTERN EUROPE

DENMARK
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<td><strong>Banks</strong></td>
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<tr>
<td>1. Denmark Islamic Bank International of Denmark</td>
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<td>2. Faisal Finance (Denmark) A/S</td>
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<th>FRANCE</th>
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<tr>
<td>Muslim Population 4,155,000 (9%)</td>
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<tr>
<td><strong>Banks</strong></td>
</tr>
<tr>
<td>1. Algerian Saudi Leasing Holding Co. (Dallah Al Baraka Group)</td>
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<tr>
<td>Employees: 61,000</td>
</tr>
<tr>
<td>Sales: $12 billion (2005)</td>
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<tr>
<td>2. Societe General</td>
</tr>
<tr>
<td>Products: Retail, private, investment and corporate banking, insurance, investment management</td>
</tr>
<tr>
<td>Revenue: €26.42 billion (2010)</td>
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<tr>
<td>Operating income: €5.713 billion (2010)</td>
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<td>Profit: €3.917 billion (2010)</td>
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<td>Total assets: €1.132 trillion (end 2010)</td>
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<td>Total equity: €50.98 billion (end 2010)</td>
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<tr>
<td>Employees: 160,700 (average, 2010)</td>
</tr>
<tr>
<td>3. BNP Paribas</td>
</tr>
<tr>
<td>Products: Retail, corporate and investment banking; asset management</td>
</tr>
<tr>
<td>Revenue: €40.19 billion (2009)</td>
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<tr>
<td>Operating income: €8.482 billion (2009)</td>
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<tr>
<td>Profit: €5.832 billion (2009)</td>
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<tr>
<td>Total assets: €2.058 trillion (2009)</td>
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<td>Employees: 201,740 (2009)</td>
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<th>GERMANY</th>
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<tr>
<td>Muslim Population 4,119,000 (5.0%)</td>
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<tr>
<td><strong>Banks</strong></td>
</tr>
<tr>
<td>1. Bank Sepah, Iran</td>
</tr>
<tr>
<td>Products: Retail Banking</td>
</tr>
<tr>
<td>Revenue: 7,148,849,000,000 IRR (20 March 2006)</td>
</tr>
<tr>
<td>Net income: IRR 4,966,653,000,000 (20 March 2006)</td>
</tr>
<tr>
<td>Total assets: 155,000,000,000 IRR (20 March 2006)</td>
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<tr>
<td>Employees: 17,929</td>
</tr>
<tr>
<td>2. Deutsche bank</td>
</tr>
<tr>
<td>Products: Investment, commercial, retail and private banking, asset management</td>
</tr>
<tr>
<td>Revenue: €28.57 billion (2010)</td>
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<td>Profit: €2.310 billion (2010)</td>
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<tr>
<td>Total assets:</td>
</tr>
</tbody>
</table>

**IRELAND**

Muslim Population 40,000 (1.0%)

- **Banks**
  1. Al Meezan Commodity Fund Plc., Dublin
  2. Jersey, UK
  3. The Islamic Investment Company, St Helier.
  4. MFAI (Jersey) Limited (formerly - Massraf Faysal Al-Islami Ltd, Jersey)

**ITALY**

Muslim Population 1,583,000 (2.6%)

- **Banks**
  1. Bank Sepah, Iran
     Details as above.

**LUXEMBOURG**

Muslim Population 13,000 (2.7%)

- **Banks**
  1. Faisal Finance (Luxembourg) S.A
  2. Faisal Holding, Luxembourg
  3. Takaful S.A
  4. Islamic Finance House Universal Holding S.A

**SWITZERLAND**

Muslim Population 433,000 (5.7%)

- **Banks**
  1. Cupola Asset Management SA, Geneva
  2. Dar Al Maal Al Islami Trust, Geneva
     The $3.5 billion DMI Trust
  3. Faisal Finance (Switzerland) SA, Geneva
  4. Pan Islamic Consultancy Services Istishara SA, Geneva
  5. Pictet & Cie

  Total assets: USD 399 billion (31 December 2010)
  Employees: 3000
### UNITED KINGDOM

Muslim Population 2,869,000 (4.6%)

#### Banks

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<tr>
<td>1.</td>
<td>AL Baraka International Ltd, London</td>
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<td>2.</td>
<td>AL Baraka Investment Co. Ltd, London</td>
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<td>3.</td>
<td>Al Rajhi Investment Corporation, London</td>
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<td>4.</td>
<td>Al Safa Investment Fund</td>
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<td>5.</td>
<td>Bank Sepah, Iran</td>
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<td>6.</td>
<td>Dallah Al Baraka (UK) Ltd., London</td>
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<td>8.</td>
<td>Barclays Capital</td>
</tr>
<tr>
<td>9.</td>
<td>HSBC Amanah Finance</td>
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<td>10.</td>
<td>ABCIB Islamic Asset Management, Arab Banking Corp</td>
</tr>
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#### Products

1. Financial Services
2. Financial services
3. Finance and insurance, Consumer Banking, Corporate Banking, Investment Banking, Investment Management, Global Wealth Management, Private Equity, Mortgages, Credit Cards

#### Employees

1. 7,600
2. Details as above
3. 2004 Group annual revenue $4,960 million
6. Revenue: $103.74 billion (2009)
8. Profit: $5.834 billion (2009)
9. Total assets: $2.418 trillion (at 30 June 2010)
11. Employees: 302,000 (2009)
12. Subsidiaries: HSBC Bank plc., HSBC GLT India, HSBC Bank USA, HSBC Bank Middle East, HSBC Mexico, HSBC Bank Brazil, HSBC Finance

#### Ownership

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<tr>
<td>Kuwait Investment Authority</td>
<td>29%</td>
</tr>
<tr>
<td>Central Bank of Libya</td>
<td>29%</td>
</tr>
<tr>
<td>Abu Dhabi Investment Authority</td>
<td>27%</td>
</tr>
</tbody>
</table>
Others shareholders 15%

### Banks with Islamic window operations

1. **ABC International Bank, London**
   - Type: Public
   - Industry: Banking

2. **Europe Arab Bank Plc., London**

3. **Riyadh Bank, London**

4. **Citibank International Plc., London**
   - Products: Consumer banking, Corporate banking, Investment banking, Global wealth management, Financial analysis, Private equity
   - Revenue: $86.601 billion (2010)
   - Operating income: $10.951 billion (2010)
   - Profit: $10.602 billion (2010)
   - Total assets: $1.915 trillion (2010)
   - Total equity: $163.5 billion (2010)
   - Employees (Worldwide): 260,000 (2010)

5. **Cedel International, London**

6. **Dawnyay Day Global Investment Ltd**

7. **Global Islamic Finance, HSBC Investment Bank Plc.**

8. **Gulf International Bank Bsc, Bahrain**

9. **Islamic Bank of Britain**
   - Products: Retail Banking
   - Revenue: GBP 8.83 million (2006)

10. **Lloyds TSB Plc. Bank**
    - Products: Private, retail and investment Banking and Insurance
    - Employees: 75,856
    - Parent: Lloyds Banking Group Plc
    - Subsidiaries: Lloyds TSB Scotland Plc.

11. **The Halal Mutual Investment Company Plc.**

    - Revenue: ¥4,523.510 billion JPY (FY 2007)
    - Net income: ¥311.224 billion JPY (FY 2007)
    - Employees: 68,919 (2005)
    - Subsidiaries: Mizuho Bank, Mizuho Corporate Bank & Mizuho Trust & Banking

    - Products: Investment banking, Prime brokerage, Investment management, Commercial banking, Commodities
    - Operating income: $12.892 billion (2010)
    - Total assets: $911.000 billion (2010)
    - Total equity: $74.257 billion (2010)
    - Employees: 35,700 (2010)

14. **Islamic Investment Banking Unit (IIBU), United Bank of Kuwait, London**
References:


**Popularity of Islamic Banking:**

*Increase in Islamic Population:*

There has been a dramatic increase in the Muslim population from 10 million in 1990 to approximately 17 million in 2010 in Western Europe; more and more customers are seeking products that are designed under Islamic Sharia law that would enable customers to borrow whilst adhering to the principals of Islam.
Islamic Population in Western Europe

Goodwill & Fair Dealing:
Islamic banking is based upon the principals of fair gain and truthfulness as a result this is gaining popularity even amongst non-Muslims. The most enticing and significant factor of Islamic banking is that it is available for all customers irrespective of their faiths and religious beliefs.

*Conventional Banks operating under other identities:*

Due to the ever increasing popularity of Islamic banking, conventional banks have been keeping a very close eye on its development with a view to being a part of the Islamic banking system and increasing their customer base. There is has always been one fundamental problem. How can the conventional commercial banks start trading in Islamic banking products? These banks are perceived as carrying out un-Islamic trading by the charging of interest. As a result the conventional banks have created separate companies or brands under which Islamic banking products are sold to customers. A prime example of this is the HSBC (Hong Kong Shanghai Banking Corporation). The HSBC Al Amanah Finance has been selling Islamic Banking products and services for many years and was one of the first conventional banks to create a separate brand under which Islamic banking products were sold. In the United Kingdom Lloyds TSB followed suit soon after. Even the pure investment bank such as Goldman Sachs (Jewish Financial Institution) has also joined the many conventional banks offering Islamic Financial products.
Global financial crisis 2007-08:

At the time when the world conventional banks are facing financial crisis, Islamic banks seem to be prospering. This is primarily due to its interest free banking which is less affected by the Interest rate fluctuations and variations and against the trend Islamic finance markets are flourishing (getting greater returns from their real estate investment, tourism, increased oil prices which are making their currency stronger) and European markets are facing unprecedented problems. This issue is another reason why the conventional banks are creating brands under which customers have the opportunity to buy Sharia compliant products.
Globally Islamic Banks Return Against Conventional Banks in Financial Crisis 2005-07 (IMF estimate)

Reference


*Increased Oil Prices in 2008:*
In 2008 the world oil prices saw a very sharp rise to over a 100$ a barrel. As you can see in the graph the Middle East controls a majority of the oil reserves. As a result an increase in the per barrel price of the oil greatly increased the wealth of these countries whereas the Western European countries were suffering badly as they were some of the many countries purchasing the oil at 100$ per barrel. The Western European economies financial wealth is based upon speculation and guaranteed rates of return. This situation will further pressurize Western European economies to open its doors to the Islamic banking institutions to carry out business in their countries.

Reference:

http://www.blominvestbank.com/Library/Files/Islamic%20Banking.pdf
9/11 Terrorist Attacks:

The Unfortunate attacks of 9/11 on the United States of America allowed many Muslims and financial institutions to withdraw their money from the Western European and US markets in the fear of their bank accounts being investigated and seized by US authorities. However the Muslims withdrawing their money were looking for somewhere to deposit this money and this gave rise to the popularity of Islamic banking that the Muslims could trust and with whom they could freely carry out their financial transactions. Prior to this unfortunate incident, Islamic banks were gaining prominence at a very slow and steady pace however the attacks led to a very sharp rise to prominence of Islamic banking.

Popularity of Islamic Banking in non-Muslims:

Islam is a religion for all and as discussed earlier Islamic banking is an open system which does not prejudice anyone from other faiths or religious beliefs. The two main reasons for the attractiveness of Islamic banking to other non-Islamic people are

- It provides certainty in payments of their loans
- Engages borrowers in Profit/loss sharing.

Conventional banks entering into Islamic Finance:

After carefully watching the growth in Islamic banking, Western European banks have slowly started offering Sharia compliant products through their window operations which gives them access to additional customers and provides a new service to its existing customer base.
Services offered by Islamic Banks:

- **Current accounts:** similar to conventional bank current account, where customers deposit money.

- **Saving account:** With Islamic Banking a return on customer savings is not promised but full amount is returned to the depositor. In conventional banking a higher rate of return is promised to the customer as they pass on some revenue generated from the charging of interest.

- **Investment accounts:** This is where capital is placed for a fixed time period and profit/loss is shared between the bank and the client based on an agreed ratio whatever that may be, where the return is not promised or guaranteed.

  a. **Mark-up price:** The banks purchase an item on behalf of their client and then client has to repay that amount plus the profit agreed. In this case the client has the benefit to pay back later.

  b. **Letter of credit:** The banks import the product on behalf of the customer upon agreement of a marked up price or profit sharing should the item be sold for the agreed amount again this is not guaranteed.

References:

http://www.eurojournals.com/irjfe_39_03.pdf

c. **Hire Purchase:** This is where the bank gets the item from the customer on rental basis and returns it after a fixed time period with the option available to the bank to purchase if needed.

d. **Sell & Buy Back:** In this instance the bank buys the item from the customer and after fixed period of time the customer will buy it back from the bank on a predetermined price.

e. **Leasing:** This is where the item is partly sold to the customer; the bank will retain ownership until the customer does not pay the full price to purchase it.

f. **Musharaka:** The bank will participate in the project along with its customers and after recovering its initial investment any profit generated from the investment will be distributed amongst the banks customers.

g. **Mudarabha:** The bank fully finances the project and customer will provide its expertise, if it turns out to be profitable then its shared in case of a loss this will be borne by the bank.

h. **Financing with expecting estimated ROR (Rate of Return):** Again the bank will finance the project in expectation of a minimum ROR which will help the bank to cover its initial investment. If the return is higher than the investment then the customer will get a share. However if it’s lower than expected then the loss will all belong to the bank.

- **Lending:**
  
a. loan with services charges

b. loan without service charges for very small business

c. overdraft services without any charges

- **Other Services:** Money transfers, bills collection, forex etc. are provided against some fixed charges or commissions.
References:

http://knol.google.com/k/islamic-banking-concepts#

Standards setter:

The following two institutions set the standards for Islamic banking and are recognized worldwide and is in full calibration with IMF, World Bank and other institutions internationally and locally to assist and resolve issues regarding Islamic banking in global economic.

- Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI), Kingdom of Bahrain
- The Islamic Financial Services Board (IFSB), Kuala Lumpur

Reference:

http://www.ifsb.org/index.php

Islamic Banking Awards:

Global finance Islamic institution award 2010:

This is an award given by the Global Finance magazine which was given to the London based European Islamic Investment Bank (EIIB) on their outstanding performance based on profitability, assets growth, strategic relationship, innovative products, geographical reach, financial stability and new business development. After detailed consultation between the members of the judging panel made up of bankers, industry experts and analysts. As the EIIB is amongst those institutions which have increased their provisioning levels, it helps them to reach out to those affected by the global financial crisis;

Bank of London and the Middle East (United Kingdom) stood 1st among its competitors due to its growth successfully meeting its customer’s needs for sharia compliant products and developing the foundation for continuous rapid growth for the future.

Reference:

CHAPTER NO.4:

PRESENTATION ANALYSIS
The following graphs show the Islamic banking customers in Western Europe by customers and in percentage and the next graph shows the Global Islamic banking vs. Western Europe in which UK is having the highest share & acting as the hub in Europe.
References:


http://www.islamic-bank.com/investor-relations/regulatory-information/

CHAPTER NO.5:
1. SUMMARY OF FINDINGS:

The Islamic banking industry has experienced substantial growth during the past decade. The new products offered by Islamic banks and the support given to its sharp rise by Western economies by providing the valuable experience and in depth knowledge of conventional banking demonstrate the desire of the western economies and countries to expand the Islamic banking financial sector. This study highlights the Western European countries desire to make Islamic banking a viable alternative to Conventional banking thus creating some stiff
completion for conventional banking which the Western economies feel is required in order to reshape the financial sector. Together with the Western European economies the conventional banks have also realized the potential popularity of Islamic banking and have used their invaluable experience to create Islamic banking products to rival the conventional products and services. The strategy of conventional banks would be to attract the customers that were lost due to the financial crisis and the atrocities of 9/11 and to bring back the vast amounts of wealth present in the Middle East.

The United Kingdom financial sector leads the way for the dynamic growth strategy and realizing the potential market growth of Islamic Finance. The United Kingdom has created the first independent European Islamic Bank with the help the capital available in the Middle East. Switzerland is also following suit by entering into this unique market. Due to the previous experience they have in creating many window operations or Islamic banking these two countries are extremely well placed than its European counterparts to progress the Islamic Banking products. Countries like Denmark and specially Germany have a lot of work to do with regards to ethnic religious independence, by providing religious space to Muslim’s or where Muslim’s are highly concentrated in one area or they don’t have very strong religious beliefs as they have come from many parts of the world or from countries where there is a lot of religious secularism and where there may not be too much emphasis on religion, these people may be less interested in Sharia Law and Sharia compliant products. The most important role is the support provided by the governments which unfortunately is not available in these countries for the Muslim community because of low acceptance of the Islamic faith in general. Similarly in Luxembourg and Italy steps have been taken towards the establishing of Islamic finance but at this point of time it’s too early to commit too many resources towards the setting up of an Islamic bank as the Muslims living in these countries are first generation immigrants and are from different regions and are not organized so there is little potential at this point of time. However if we talk about Germany its relatively less interested towards Islamic finance even though there are close to 4 Million Muslim’s living there. This is primarily because of Muslims in Germany having poor socio-economic conditions where most of the Islamic citizens of Germany are in low paid jobs or living there illegally. These are seen not to be profitable customers for bank but still a large community who are living and earning a respectable living and by using banks their reputation, knowledge, experience and by marketing efforts serve more customers and can be a country with the largest Islamic bank in Western Europe.
2. CONCLUSION:

European institutions that offer Islamic banking face the same issues which new conventional banks face at their inception which make it more difficult for its development and innovation. The study of Germany shows that Islamic banks have high risk management but at the same time the large population of Muslims does solve the issue of liquidity thus creating a financial equilibrium. The current problem is the shortage of well-respected and recognized sharia scholar’s having sufficient financial knowledge used to create and develop Sharia compliant financial products, this problem is very real and being faced by Western Europe at the moment. Generally the lack of IT expertise, back office operations, National laws and tax systems vary greatly in various Islamic countries and as a result making it less attractive for the Western European markets.

3. RECOMMENDATIONS:

The assessment of Islamic banking in Western Europe shows that there is a serious need of marketing Islamic finance and educating the Muslim’s as well as non-Muslims all over Europe to the advantages of Islamic banking. This will help the western European countries to take full advantage of this niche market which is growing day by day. The introduction of Islamic Banking will once again attract the many large investors in the middle eastern markets which the Western European markets enjoyed 10 to 12 years ago and the wealth of the large middle eastern investors is going to be one of significant injections of capital need to help the recovery of the conventional banking system as well as the ailing Western European economies.