



WSBI

The global voice of savings and retail banking

PERSPECTIVES 60

ISLAMIC BANKING AND FINANCE

Insight on possibilities for Europe



Executive Summary

The purpose of this study is to analyse and present the issues involved in Islamic banking and finance, based on desk research. WSBI/ESBG aims to bring members closer to the ongoing discussion on developing Islamic banking services and the challenges and opportunities that the business entails.

Spotlight on the market

This document provides an overview of the Islamic finance sector worldwide, presenting first of all a brief analysis of the Islamic offer in the Middle East and Africa. This is followed by an analysis of the development of the Islamic finance in Europe and the U.S.

In the majority of European countries, supervisory authorities and finance practitioners are not very familiar with the process by which Islamic finance is introduced into a conventional system. Their financial regulatory frameworks have not been adapted to allow the offering of Islamic products and services. In Europe, the exception is the UK which is the only country that has reformed laws to ensure that Shariah-compliant products and services can be offered in the country. France is also addressing the issue and since the end of 2007 several political initiatives have been proposed to adjust the regulatory and legal framework to enable Paris to become a major marketplace in Islamic finance. The Malta Financial Services Authority is also monitoring developments in Islamic finance and analysing opportunities for the Maltese financial system. Luxembourg is a special case. It has not reformed its legal framework. However, within the current framework, it is possible to offer some Islamic products and services. Finally the United States regulators' approach to Islamic banking is fairly ad hoc, with individual regulators dealing with specific issues as they are presented.





Islamic banking and finance offer

Islamic banking products such as current accounts, deposits or mortgages are quite easy to develop. They are based on a specific Islamic contract which states the exact terms for making the financial transaction. In Islamic finance, Sukuk (similar to bonds) and Takaful (insurance) are the most extended Islamic products.

Unless a financial institution is prohibited for regulatory reasons from doing so, any financial institution is permitted to offer Islamic investment products. The challenge for them is how to leverage their banking knowledge and expertise in developing products and services that fulfill the requirements of their Islamic customer base while being compliant with Islamic finance principles. In order to develop a successful Islamic banking and finance offer financial institutions have to take important decisions that will change the internal structure of the institution. Additionally, they must follow the guidance of the international Islamic supervisory authorities.

Opportunities and challenges

Islamic finance in Europe is a novel concept that some countries have seen as an opportunity to attract capital from the Middle East. At the same time it represents a chance to access a large new customer base of around 12-15 million Muslims that live in Europe. However, financial initiatives will not be successful if they are not accompanied by an adapted regulatory framework. In addition, there are a number of other issues surrounding Islamic finance. These issues include a lack of a standard accounting system, inadequate Shariah expertise, a shortage of professionals and unresolved internal ongoing discussions about the legality of some product structures.

This research document aims to shed some light on the abovementioned issues for the attention of the WSBI/ESBG members and the general community of those interested in finance issues in Europe.



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