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The genesis of Islamic finance system: Exploring the mainsprings and emerging markets

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Abstract

Purpose: The present paper aims in-depth analysis of the Islamic Banking and Finance Industry (IBFI) in relation to its emergence, consolidation, and impact on the geo-economic scenario. With this, the Emerging Markets of Islamic Finance in several jurisdictions are highlighted to indicate the global influence of IBFI in the contemporary economic scenario.

Research Methodology: The methodology in the research will be altogether qualitative, involving descriptive and analytical methods.

Results: The analysis finds that unprecedented developments engulfing the Middle East post-1970s like, the pan-Islamism oil embargo of 1973-1974, played a pivotal role in materializing the emergence of Islamic Banking and Finance theory into a 'viable corporate system.

Limitations: The paper as such is not the statistical overview of IBFI in its sectors of intermediation like Islamic Banking. Islamic Insurance (*Takaful*), Islamic Capital Market, etc. The paper also doesn't evaluate the internationalization and standardization aspects of IBFI.

Contribution: The discussion in the manuscript will develop a coherent understanding of the emergence, growth, and development of IBFI in the contemporary geo-economic scenario. Moreover, the analysis in the paper establishes the emergence of IBFI as a global phenomenon, and thus explores the possibilities of further research in several aspects/sectors of IBFI Islamic Banking. Islamic Insurance (*Takaful*), Islamic Capital Market.

Keywords*: Financial intermediation, PLS Scheme, Riba, Sharīʻah, Standardization*

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1. Introduction

Between the 1940s to 1970s, significant theoretical material pertaining to the framework/models of Islamic banking and finance was penned down (Siddiqui, 2004; Emad & Thomas, 2006). The establishment of the first inter-governmental bank, Islamic Development Bank (henceforth read as IsDB) Jeddah in 1975 by the OIC (Organization of Islamic Conference) and the Dubai Islamic Bank in the same year, was a first colossal initiative toward the development of Islamic Banking and Finance system in the corporate world (Ahmad, 2000). The First International Conference on Islamic Economics (in Mecca 21-26th Feb.), which was a significant event in the evolution of the IBF industry, was organized in the year 1976. This academic enterprise assembled the Muslim economists, *'Ulamās*, and policymakers all over the globe on a common platform to discuss the *Islamization* trends in economics and finance (Shinuke, 2012). In its aftermath, King Abdul Aziz University Saudi Arabia, established International Centre for Research in Islamic Economics (ICRIE 1979), IsDB-Jeddah established the Islamic Research and Training Institute (IRTI 1981), and International Islamic University Islamabad Pakistan established, the International Institute of Islamic Economics (IIIE 1987). All these strides widened the academic scope of the Islamic banking and finance system globally and the foundation of a series of such institutes proliferated between the eighties and nineties (Shinuke, 2012).

According to Ahmad (2000), the key precursors behind the emergence of Islamic banking and finance are as follows:

> Firstly the background (compilations) set forth by *Sharīʻah* scholars (*Ulama*) and *Fuqaha* in the first half of the 20th century and later up to the 1970s were worked upon by professional economists and bankers for practical implementation of Islamic finance in the corporate sector. Secondly, efforts have been made to establish *Riba*-free financial, investment, and banking institutes. Thirdly, the academic centers (universities, research institutes, and professional organizations) began to introduce Islamic finance and economic courses. This development broadens the horizons of Islamic finance as research both empirical and analytical has been done to emphasize the contemporary relevance of the IBF industry. And, lastly, concerted efforts have been made at the state level to switch over from *Riba* to *Riba* free system. (p. 59)

However, it is important to note here that prior to the 1970s no substantial attempts were executed to put the theory into practice (by establishing institutions or banks) except for the few futile, experiments carried out in Egypt like the establishment of *Mit Ghamr Bank* 1963-1967 in the Nile Delta, based on the German mutual saving schemes founded by Dr. Ahmad al-Najjar (Egyptian economist) and the *Nasr Social Bank* 1961 focusing on the social solidarity concept. As mentioned above, the major academic advances in IBF were made between the 1940-1970s, and this period also witnessed significant politico-economic upheavals in the Middle East that ushered the IBF into the corporate sector as well. The present paper in context is a holistic overview of factors behind the emergence, growth, and expansion of IBF in the geo-economic scenario. The current study, as an extension of other works about IBF, aspires to provide a descriptive analysis of these major factors. Furthermore, the study will emphasize the size and impact of IBF globally by discussing the proliferation of IBF institutes, especially in Arab, Asia, and the Western world where Islamic finance was introduced into the financial regulatory framework.

The rest of the paper is structured as follows. In section 2, the size and impact of Islamic finance are discussed which primarily presents IFI as a global phenomenon. In section 3, the primary factors like pan-Islamism and the oil price hike of 1973-74 are discussed in relation to the emergence of the Islamic banking and finance system. The global impact of IBF is assessed in section 4 of this paper, where a brief description of strategically important jurisdictions is given which make IBF part of their national financial system around the globe. Finally, in the light of guiding principles of the Islamic economic system, Islamic finance is presented as an alternate finance system with proper synthesis/symbiosis of ethics, social dimensions, and social-economic justice.

2. Literature review

The colonization of Muslim lands drained out the resources (material and intellectual) of the Muslim world gradually. In response, the Muslim intelligentsia in the post-colonial era (after the 1940s) started to re-structure their Socio-Politico, Religious, and Economic Institutions according to the tenets of *Sharīʼah* (Ahmad, 2000; Islahi, 2014) The Economic paradigm, which was totally designed by capitalist thought was deeply delved into by Muslim Economists, to formulate a *Shari'ah*-compliant Economic system. The initial literary material compiled by (Nabhani, 1953; Baqir as-Sadr, 1961; Maududi, 1961 and 1969), regarding Islamic economics and finance was mainly concerned with highlighting the economic philosophy of Islam, in-competence of socialist and capitalist systems in solving the economic problems of the world together with the criticisms of conventional Economics.

The earlier works like Qureshi (1949), *Islam and the Theory of Interest*, Maududi (1969) *Sood* (Interest)) also, accentuate the concept of *Riba* (usury), its prohibition, and demerits (material and spiritual) on a Quranic basis. According to Shinuke (2012), the discussion about *Riba*, whether it is a usurious rate of interest or all forms of interest in *Riba* was at the forefront during the 20th century, though the latter view was staunchly propagated by the revivalist, *ʻUlamāʼ* (religious scholars) of particularly the South-Asian continent, for the development of Islamic economics and finance movement.

In the successive leaps efforts were made to practically apply the *Sharīʻah* guidelines in Banking and Finance sector, in this aspect (Siddiqui, 1976, *Banking Without Interest*; Uzair, 1978, *Interest-Free Banking*) provides Models for Modern Islamic Banking Industry, in the concept of two-tier *Mudarabah* (co-partnership) model. Moreover, in the initial period of 25 years from 1975 to 2000 C.E., the IBF industry remains a niche market, in the oil-producing/exporting Middle East Economies, particularly of the Gulf Cooperation Council (GCC) countries i.e. Saudi Arabia. Kuwait, Qatar, UAE, Bahrain, Oman, etc. However, as per Warde (2009), the beginning of the new millennium proved a positive step toward the internationalization of this industry.

Accordingly, the standardization of IFI in the shape of international standard-setting bodies like AAOIFI (Auditing and Accounting of Islamic Financial Institutions, Bahrain 1991); IFSB (Islamic Financial Services Board, Malaysia 2002); IIFM (International Islamic Financial Market, Bahrain 2002) IIRA (International Islamic Rating Agency, Bahrain 2002); IICRCA (International Islamic Centre For Reconciliation and Commercial Arbitration for Islamic Financial Institutions, 2005 UAE) GCIBFI (General Council For Islamic Banks and Financial Institutions 2001, Bahrain) enhances the operational framework of Islamic financial institutions is an example of its reformation and progress (Ayub, 2007). The global proliferation of Islamic financial Institutions, in Muslim and non-Muslim jurisdictions, (Al Bashir & Al Amine, 2016) together with a decent growth year on year basis has made it a global phenomenon (IFSB, 2020). The general pattern of the works about IFI, though are exhaustive in dealing with the issues of IBF but is devoid of details on the factors behind the emergence of the IBF system. The works of Warde (2000) and Erler (2010) have clearly emphasized that the emergence of the modern IBF system, is actually a result of several politico-economic developments of the 1970s, particularly in the Middle East. The present work in context will highlight the genesis of factors, which shaped the IBF thought into a system post the 1970s. The global impact of the Islamic finance industry in the Geoeconomic scenario, and its emergence, relevance, and status in several jurisdictions around the globe are elaborated.

3. Research methodology

The methodology in the research will be altogether qualitative, involving descriptive and analytical methods. It consults and assesses available material/data to look into the genesis and consolidation of IBFI in the Geo-Economic scenario.

4. Results and discussions

Mainsprings/factors behind the emergence of the Islamic banking and finance system

As mentioned earlier, the possibility of the *Sharīʻah* compliant financial system was emphasized in the theoretical works (writings) mostly of scholars from the Middle East and Indo-Pak subcontinent during the first half of the 20th century. However, not only was that sufficient to induce the creation of the IBF industry in the corporate sector, like many other politically and economically oriented developments in the Middle East like 'Pan Islamism' and 'Oil price hike' played a significant role in this direction (Erler, 2010; Warde, 2000) The following section is dedicated to discuss and analyze these politico-economic driven factors behind the rise of IBF sector.

Rise of Pan-Islamism in the Middle East

The relevance of Pan-Islamism (the call for solidarity on a religious basis), cannot be linked to the emergence of the IBF system until the 1960s during the epoch of the Arab Cold War. Arab cold war period was a series of conflicts in the Arab World led by Gamal Abdel Nasser, of Egypt, espousing Arab Nationalism, Socialism, and Pan Arabism, also the more traditionalist kingdoms were led by King Faisal of Saudi Arabia. The conflict began following the Egyptian Revolution of 1952 and the rise to power of Nasser and lasted until 1970. Pan Islamism occurred in two phases: during its initial phase, it can be viewed as the Muslim world's joint reaction against European imperialism in the Middle East and Central Asia. The second phase (post-colonial) during the Arab cold war period in which pan

Islamism by King Faisal of Saudi Arabia must be regarded as a strategic reaction to Egyptian pan Arabism as explained above (Erler, 2010). Two important notions gained much currency in the Arab world, one proposed by Egypt's president Gamal Abdul Nasser (1918-1970), the proponent of Arab Nationalism/Pan-Arabism, who stood for the strength and solidarity of Arab nations, and another by, King Faisal of Saudi Arabia (1906-1975), the pioneer of Pan-Islamism, who called for a United Muslim world (Darwich, 2014). However, the defeat of the Arab League in the 6-day war in 1967 with Israel, led the Muslim intelligentsia to disapprove of the Egyptian philosophy of Arab solidarity and promote the United Muslim world concept of King Faisal (Darwich, 2014; Habib, 2016). In 1969, in a step to strengthen the Pan-Islamic movement, King Faisal called for a Summit of leaders/heads of the Muslim states at Rabat Morocco. The discussions of this Summit led to the creation of the Organization of Islamic Conference, (OIC) in 1970. Under the aegis of OIC in 1975, Islamic Development Bank, Jeddah (IDB), the multilateral agency enhancing the Islamic banking movement globally was established. This concept of uniting the Muslim world, proposed and pioneered by the rich oil-producing Arab world, was too lucrative for the non-Arab Muslim countries like Turkey and Pakistan (Warde, 2000).

Oil Price Hike of 1973-74: Causes and Effects

The major developments of the 1970s like the advancement of the Organization of Petroleum Exporting Countries (OPEC) in the petroleum engineering, increasing demand for oil globally, and shifting of power between oil producers and consumers, enabled OPEC to act as the oil governing agency thus, exercising a greater control on oil policy (like greater share and higher prices). This changed scenario in the 1970s facilitated the transition of oil governance authority from the West to the East transforming the western oil companies (who formerly dominated the oil policies) into merely service providers (Warde, 2000).

The hike in oil price between 1973-74 enriched the financial resources (petrol capital) of the Middle East in general and OPEC in particular, thus "oil industry, sovereign wealth funds and the Islamic banking industry are interrelated elements mutually reinforcing each other" (Erler, 2010) the rising oil prices increase the sovereign wealth funds (SWF) or the financial resources of oil-producing countries that in turn were invested in emerging Islamic banking industry (Erler, 2010). Thus, the oil price hike of 1973-74 was an economically driven factor behind the emergence of the IBF corporate sector post-1975, and the Pan-Islamic movement, particularly between the 1960s and 1980s acted as a solid religiopolitical factor in this regard (Wilson, 2002). The other secondary factors like the establishment of IsDB Jeddah, in 1975, the September 9/11 Episode, and the global financial crisis of 2007-2009, also played an important role in the relevance and inter-nationalization of IFI (Warde, 2009).

Discussion

Islamic finance industry size and impact: A Global Perspective

Initiating from some political and economic upheavals of the Middle East during the 1970s viz, the oil embargo of 1973-74, Pan Islamism, the establishment of (IsDB) Jeddah as a multilateral agency supporting Islamic banking and Finance (IBF) sector in the current geo-economic scenario has developed into a global phenomenon executing operations in 75 nations worldwide with more than 600 Islamic financial institutions serving 38 million customers globally (Ernst & Young, 2014). As per the report of the Islamic Financial Services Board (IFSB) the Islamic Financial Institutions (from here onwards IFIs) total worth across its three main sectors, banking, capital market, and Insurance (*Takaful*) in the regions of Asia, GCC (Gulf Cooperation Council), MENA (Middle East and North African) ex-GCC, Africa ex-North Africa was estimated at US$2.439 trillion in 2019, with average 7 to 10 % y-o-y growth rate since 2012 (IFSB, 2020; Mohamed, Goni, & Hasan, 2018).

Table 1. IFI as per its Assets (Billion US$) in Sectors and Regions (2Q2019)

Region	**Banking Assets**	**Islamic capital Market (*sukuk* and Islamic Funds Sector)**	**Takaful sector**	**Total**	**Share**
GCC	854.0	240.9	11.70	**1,106.6**	**45.4%**
ASIA	240.5	330	3.02	**573.52**	**23.5%**
MENA (Middle East and North African)	584.3	35.6	11.36	**631.26**	**25.9%**
Africa	33.9	3.4	0.55	**37.85**	**1.6%**
others	53.1	35.8	0.44	**89.34**	**3.7%**
Total	**1,765.8**	**645.7**	**27.07**	**2,439**	**100%**
share	**72.4%**	**26.5%**	**1.1%**	**100%**	

Source: IFSB Report 2020

Table 2. Top Countries with Islamic Finance Education and Research Program

Name of the Country	**Total Number of Educational Institutes**	**Islamic Finance Educational Institutes**	**Number of Degrees/ Coursed Offered**	**Share of Educational Institutes**
United Kingdom	1056	51	101	40%
Malaysia	69	47	96	68%
Indonesia	765	37	76	5%
UAE	72	27	64	38%
Pakistan	43	22	55	51%

Source: Mohamed, Goni, & Hasan (2018)

The inherent qualities of ethics, socio-economic justice, and welfare in the Islamic Theory of Finance together with the exponential growth rate of IFI over the last decade highlight the alternative aspect of Islamic finance to the conventional system of finance (Ayub, 2007). The main reason for the surge of interest in Islamic finance is the stronger pliability of Islamic financial markets during the global financial crisis of 2007-09, though the profitability factor was affected by the crisis in later stages of crisis impact on the Real Economy while as the credit and Asset portfolio remain resilient as illustrated in Figure 1 and 2 (Hasan & Dridi, 2010).

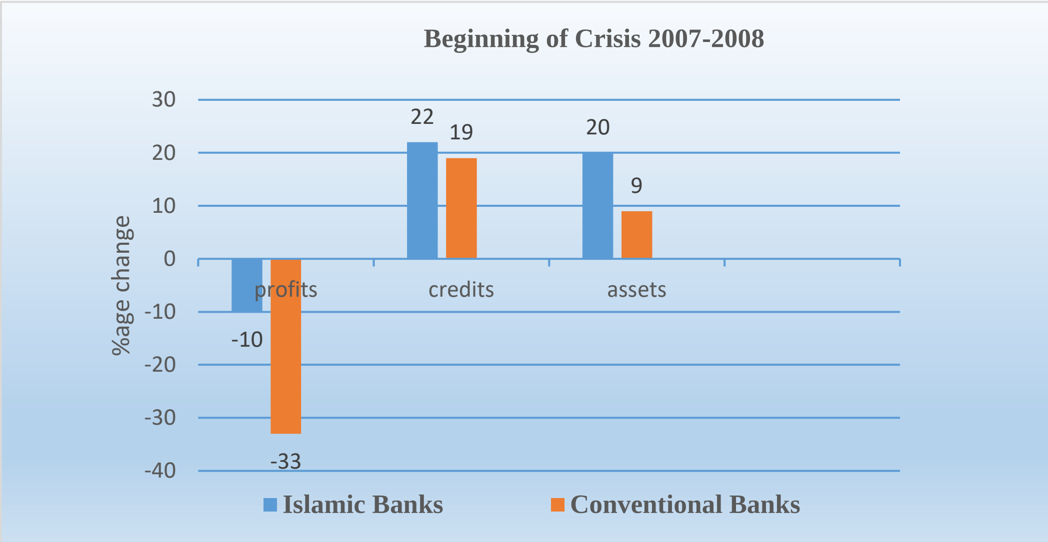

Figure 1. The Beginning of Crisis

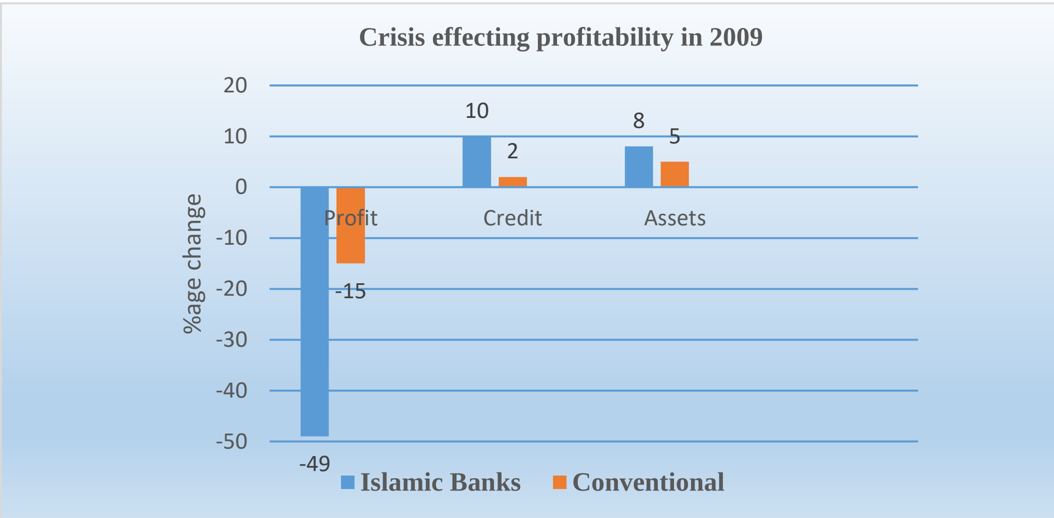

Figure 2. The effect of a crisis
Source: IMF Staff calculations

The Bank for International Settlement (BIS) has mentioned in its 2008 annual report that the root cause of almost all crises has been excessive and imprudent lending by the banks (Chapra, 2011; Bank for International Settlement, 2008). The reasons for the global financial crisis have been identified as; Excessive credit and speculation which find a clear expression in the Islamic prohibition of *Riba* (usury) and *Gharar* (speculation), which led to a severance of linkage between financial and real economies (Hasan and Dridi, 2010).

Global Proliferation of IBF Sector: A Significant Indicator of its Progress

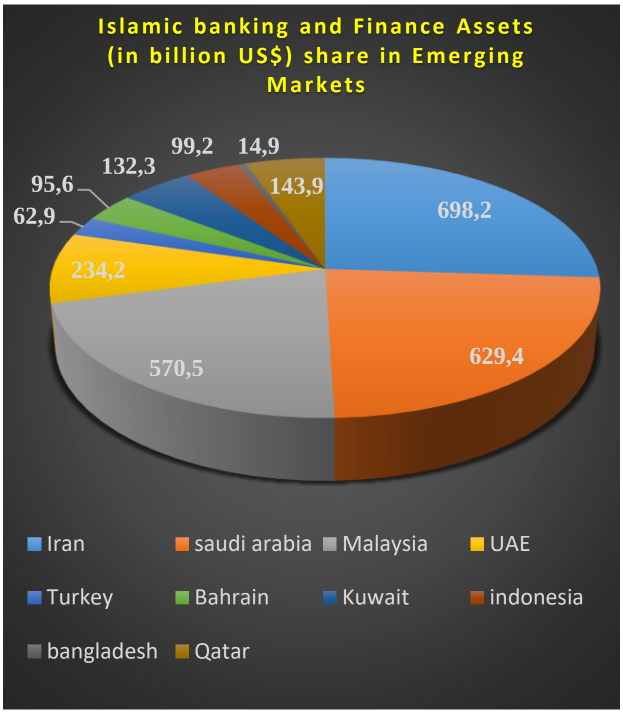

Figure 3. Islamic Banking and Finance Assets
Source: Ernst &Young (2016); IFSB (2020)

IBF system, since its foundations in 1970s has been able to make its presence into the geo-strategically important parts/regions of Arab, Asia, and West. Islamic Finance assets globally reached US$2.88trillion, more than 90% assets are in countries like Iran, Saudi Arabia, Malaysia, UAE, Qatar, Turkey, Indonesia, Bahrain, Kuwait, Pakistan, Singapore and Bangladesh, which are also designated as Rapid Growth Markets (State of the Global Islamic Economy, Dinar Standard, 2020). The rise of IBF institutes/organizations worldwide is considered as a vivid indicator of the consolidation of IBF as a significant commercial industry. The foundations of some important IBF establishments are discussed in the following section.

Arab or Middle-East Region (GCC Economies)

The economic growth, financial development, and contribution of Islamic Finance to GDP in the below jurisdictions and others parts of GCC, Middle East, and East Asian Countries have been well established by the empirical pieces of evidence. The work of Grassa & Gazdar, 2014 through OLS, panel data, and GLS Techniques reveal that Islamic Banking Sector in GCC has relevance to economic growth (Grassa & Gazdar, 2014). Moreover, the study by Bendriouch, Satt, & M'hamdi (2020), about the relation between Economic growth and Islamic banking in GCC has used a structural equation model to measure the Islamic banks' performance through several variables i.e. Return on Asset, capital adequacy, credit risk, size, liquidity, and expenses management while as GDP per capita, Education and Health are studied to measure Economic Growth (Bendriouch et al., 2020). The results showed that particularly after the subprime crisis, the economic recovery was significantly guided by Islamic Banks together with positive effects on social indicators like the health and education sector (Akkas, 2017).

Table 3. CAGR in terms of Assets, Financing and Investment for Islamic and Conventional Banking (2016)

Name and jurisdiction	Assets Y-O-Y Growth (%)		Financing Y-O-Y Growth (%)		Investment Account Y-O-Y Growth (%)	
	Islamic Banks	Conventional Banks	Islamic Banks	Conventional Banks	Islamic Banks	Conventional Banks
Bahrain	**4**	1	**5**	2	**6**	1
Saudi Arabia	**20**	4	**20**	5	**Nil**	12
UAE	**13**	9	**11**	6	**13**	6
Kuwait	**10**	6	**6**	3	**12**	2
Qatar	**22**	14	**25**	18	**28**	15

Source: Ernst &Young (2016)

Kingdom of Saudi Arabia (KSA)

Saudi Arabia pioneered the process of establishing IBF corporate sector especially by advocating the concept of Pan-Islamism proposed by King Faisal. In addition to providing substantial financial support to the Muslim countries (for fortifying Muslim solidarity), KSA, took lead in the establishment of gigantic IBF institutes like Islamic Development BankIsDB, Saudi Arabia (1975), Dallah Al-Baraka Group, Saudi Arabia (1969), and Dar Al-Maal Al-Islami Trust-DMI Switzerland (1981), which had numerous subsidiaries all over the world owned by Saudi nationals (Nathan, 2007). Presently Saudi Arabia has 31.7% market share of the global IBF Industry and 51.2% of the national market share in terms of banking assets for (Islamic banking), which indicates that its participation in banking is emerging as the dominant financial system of the kingdom (Ernst &Young, 2016).

Bahrain

In the Middle East Bahrain occupied a strategic position since its commencement of offshore banking operations in 1975. Bahrain is privileged with a good concentration of Islamic Financial institutions with the Bahrain Islamic Bank as its first commercial bank established in 1978 (Wilson, 2009). Bahrain is home to, at least, 41 IBF institutions comprising commercial banks, offshore banking units, *Takaful* operators, and investment banks (Hasan and Lewis, 2007). Besides, the participation of foreign conventional banks (Dresdner Klienworth Benson, HSBC, and UBS Citibank etc.) in the Islamic financial activities of Bahrain through the establishment of Citi Islamic Investment Bank has been facilitated. Though the share of Bahrain in the global IFI is only 1.7%, yet, the presence of international Islamic financial infrastructure and standard-setting bodies (like Liquidity Management Centre (LMC), International Islamic Financial Market (IIFM), International Islamic Rating Agency (IIRA), Bahrain Institute of IBF, General Council for Islamic Banks and Financial Institutions (GCIBFI), render Bahrain into an important strategic spot for the internationalization of Islamic finance industry (Hasan & Lewis, 2007). The Central Bank of Bahrain (CBB), in a recent bid, consolidated and organized the regulatory initiatives for Islamic banks to enhance *Sharīʻah* compliance. With the plans of issuing innovative Islamic financial products like equity-based *Murabahah* financing tool and Islamic Real Estate Investment Trusts (REITs), the *Takaful* industry of the country successfully gained a hike to more than US$ 110 million in 2013 (Islamic Finance News Guide, 2015).

UAE

The United Arab Emirates is a federation of seven 'sheikhdoms' formed in 1971 comprising Abu Dhabi, Ajman, Dubai, Fujairah, Ras-al-Khaimah, Sharjah, and Umm-al-Qaiwan. In 1975, on 12th March the Emir of Dubai passed a decree authorizing the establishment of Dubai Islamic Bank, the first Islamic commercial bank in the world. UAE in the recent past emerged as a hub of the IBF activities with the most advanced *Sukuk* Market in the gulf (Wilson, 2009). Islamic banking in UAE is growing at more than twice the rate compared to conventional. Further, the national market share of Islamic banking in

UAE is 21.4% and the global share is 14.6 % (Ernst & Young, 2014). Being one of the major shareholders of IsDB Jeddah, UAE is the headquarter of the Internasional Islamic Center for reconciliation and commercial Arbitration for Islamic Finance, one of the important infrastructure supporting institutions for IBF industry (Ricardo, 2007). The above jurisdictions, including Qatar and Kuwait among GCC are strategically important for IFI in terms of Banking penetration, Assets, and infrastructural support. Among the top ten Islamic Banks in the world eight belong to GCC.

Table 4. Top ten Islamic banks from Muslim world, as per Assets at end of 2020

Islamic Bank Rank 2020	Bank Name	Country	Assets US $ Million
1	Al Rajhi Bank	Saudi Arabia	111,338
2	Dubai Islamic Bank	UAE	80,261
3	Kuwait Finance House	Kuwait	66,783
4	Maybank Islamic	Malaysia	57,951
5	Qatar Islamic bank	Qatar	45.540
6	Alinma bank	Saudi Arabia	37,904
7	Abu Dhabi Islamic Bank	UAE	33,874
8	Masraf Al Rayan	Qatar	30.032
9	Al Baraka Banking Group	Bahrain	26,104
10	CIMB Islamic Bank	Malaysia	26,068

Source: Asian Bankers Research (2020)

Non-Arab World

According to Yusof & Bahlous (2013), Islamic finance is capable of channelizing the resources for economic growth, the features like equity participation, less interest rate exposure, and agency costs puts positive effects on economic growth indicators of East Asian countries. The study through panel co-integration analysis, variance decompositions VDCs, and impulse response functions maintain that in the short run as well as in the long run Islamic banking contributes to economic growth in GCC and East Asian countries. It's to be noted that Islamic Finance Assets in Asian Market are growing at 8.4% between 2011-2016 and are dominated by Islamic Banking and *Sukuk* (Islamic bonds) sectors of IFI, with $573.57 billion Assets of total global IFI, at the end of 2020 (Komijani & Hesary, 2018). The World Bank in 2014 Global Findex Data also highlights the prospective role of Islamic Finance in Asia's financial inclusion program and infrastructure development (Kunt, Klapper, Singer, & Oudheusden, 2014). Moreover, the presence of Malaysia as a global leader in Islamic Financial Services which held 15% of Global Islamic Finance share together with Indonesia, Pakistan, Turkey, Iran, Sudan, and Bangladesh as Rapid Growth Markets, increasing the Muslim population and positive attitude of governmental financial authorities has increased the relevance of Asian Continent in the development of IFI (Komijani & Hesary, 2018).

Malaysia

With the establishment of Bank Islam Malaysia, Berhad under the Islamic Banking Act (IBA, 1983), Malaysia made its entry into the IBF corporate sector in 1983. In the same year, *Skim Perbankam Tanpa Fardh* (SPTF) Interest-Free Banking scheme was launched with 14 commercial banks and 10 finance companies participating in the scheme (Wilson, 2002). In 1983, Bank Islam Malaysia Berhad emerged as the pioneer Islamic Bank in the country and the amendment of the Banking and Financial Institutions Act in 1993 provided the platform for the conventional financial intermediaries to start Islamic finance operations (Zainordin, Selvaraja, Man & Hoong, 2006). Currently, Malaysia holds more than 17 Islamic banks and *Takaful* (Islamic insurance) operators. The National Market Share of Islamic Banking in Malaysia is 21.3% and the global share is 15.5% (Ernst & Young, 2016). The largest Islamic bank is May Bank, followed by Bank Islam, Berhad and in 1999, Bank Mu'amalāt Malaysia, another notable Islamic bank, was established. After 2007 several international Islamic financial institutions like Al Rajhi Bank, Kuwait Finance House, Asian Finance Bank Berhad, RUSD Investment bank of Saudi Arabia, and Global Investment House of Kuwait were allowed to operate in Malaysia extending the scope of IBF operations. The establishment of Malaysia International Islamic Financial Centre (MIIFC) by Bank Negara Malaysia (central bank) was a tangible development toward making Malaysia one of the Global Islamic Financial Centers. (Kuo, 2009).

Pakistan

Notwithstanding the bulk of (theoretical) research on Islamic banking was generated in Pakistan in the 1940s, yet, no concrete efforts were made to initiate IBF on the corporate level until 1980. The establishment of the Council of Islamic Ideology (CII) under General Zia's rule (1977-1988) was a major breakthrough in creating the solid foundations for the establishment of the IBF sector (Khan, 2008; Wilson, 2002). CII primarily focused on the elimination of *Riba*/Usury from the economic setup of the country and in 1980, it drafted a report suggesting the State Bank of Pakistan to initiate *Riba*/interest-free practices in the money market (Siddiqui, 2004). Subsequently, a substantial stride was made towards developing IBF when the *Sharī'ah* Appellate Bench (SAB) of Supreme Court of Pakistan (SCP) in a historic judgment of 1999 (which was actually the exploration of the 1991 decision of the Federal *Sharī'ah* court of Pakistan regarding laws allowing interest as repugnant to Islam) directed the administration to eliminate *Riba* from the economy. This judgment permitted the Islamic banks to operate alongside conventional banks and allowed the conventional banks to offer Islamic finance products (Memon, 2007; State Bank of Pakistan Report, 2002). With the motive of consolidating the IBF industry, the State Bank of Pakistan (SBP) brought the Islamic banking department and its strategic plans into action in Pakistan (Hassan, 2007). Pakistan has established five full-fledged Islamic banks (Meezan, Dubai Islamic bank Pakistan, Bank Al-Baraka, Bank Islami, and MCB Islamic Bank) and 17 Islamic banking divisions of conventional banks, and the combined assets of a total of 22 Islamic banking units reached 12.9% of the conventional size that is 1.3% of the share of global Islamic Banking Assets (Islamic Finance News Guide, 2015; COMCEC, 2017).

Iran

With the 1979 historic revolution, the banking system of Iran was nationalized with some bigger changes in the banking regulations. In 1983, *Riba*/usury-free Banking Act of Iran was passed by the *Majlis* (post-revolution Iranian Parliament) prohibiting all *Riba*/usury/interest-based financial activities (Ashraf & Giashi, 2011). The Usury-Free Banking Law enacted on March 21, 1984, initially allowed modes of financing like *Qarḍ-i Hasan* –benevolent loan, *Modarabeah* (*Muḍārabah*), civil partnership, legal partnership, hire purchase, installment transactions, *Muzār 'ah*, *Mosaqat*, direct investment, forward deals, *Ju 'alah*, and Debt purchase (Anwar, 1992). However, it is to be noted that despite the application of usury-free banking law in Iran, the element of 'interest/Usury' has not been fully eliminated as the interest became the fundamental structure of overseas banking and in various informal markets (Warde, 2000). Iran, the fourth-largest oil reservoir holding country at the global level and second in the Middle East, has a magnanimous share in the global Islamic finance industry. Out of the 10 largest Islamic banks in the world, 6 (*Meli*, *Sedarat*, *Mellat*, *Tejarat*, *Sepah*, and *Keshavarzi*) are the Iranian and despite the US sanctions, they have been efficiently and successfully carrying out their financial operations (Islamic Finance News Guide, 2015; Wilson, 2009).

Sudan

Sudan has been going through political instabilities since the 1960s and with Jafar al-Niemiri's coming to power in 1969, he made several attempts to Islamization of Sudan; like in 1973 constitution reveals the Islamic law and custom as the sources of legislation. In 1978 Niemiri, showed his munificence and soft corner towards all Islamic revivalist organizations and with the proclamation of the 1983 September Laws, the Islamization process of Sudan entered into a new phase affecting Sudanese socio-politico and economic institutions (Warde, 2000). In 1984, the enactment of Islamic Transaction Laws initiated the Islamization trend of the banking system of Sudan and all forms of interest-based activities were prohibited. Furthermore, the advancements in the Islamic banking sector were manifested in Banking Business (Organization) Act 2003 which facilitated the establishment of *Sharīʻah* High Supervisory Board for IBF sector. The Central Bank of Sudan according to the Bank of Sudan Act 2002, also contributed to the *Sharīʻah* compliance of Islamic financial institutions (IFSB Report, 2018). Though initially Islamic banking in Sudan evolved at a low pace after the 1990s IBF was firmly consolidated in Sudan both at private and public levels (Siddiqui, 2004).

Indonesia

Bank *Muamalat* Indonesia (BMI), established in 1992 with the amendment of the 1967 Banking Law in the reign of President Suharto (1965-98), stands as the first Islamic Bank of Indonesia. The new banking laws/amendments (no.7/ 1992) permit the banks to provide services on PLS pattern. However, with the enactment of Banking Act No.10 of 1998, the consolidation of IBF sector in Indonesia was highly fortified and the Islamic Banking Act. No. 21 of 2008 sanctioned IBF to be comprehensively promoted on government priority bases (Vernados, 2005; Warde, 2000). However, it is to be noted that country's Fiscal Policy is directly controlled by the Ministry of Finance for the Government under Law no. 17/2003 (Handayani, Juzilam, Daulay & Ruslan, 2020). In 1994 BMI expanded its operations to other parts **(**Bandung Surabaya, Semarang**)** and the Association of Indonesian Muslim Intellectuals (*Ikatan Cendikiawan Muslim Indonesia, ICMI)* organized by B. J. Habibie 1990 (successor of Suharto) established nearly 80 *Baitul Mal Tamweel*, **(**BMT savings and loan institutions**)** in *Aceh* and *Lampung* regions. At the same time, a renowned Zakat Management Institution **(***Dompet Dhuafa* the poor's pocket**)** launched the program to establish 1001 BMTs and Islamic Rural Banks in Indonesia also the first Islamic insurance service the '*PT Ansuransi Takaful Keluarga*' was effected in 1994 (Warde, 2000).

Bangladesh

Bangladesh, former East Pakistan, also appeared in the global Islamic finance community in 1978 by signing the charter of Islamic finance with IDB-Jeddah. Exhibiting its commitment to re-organize the economic and financial system of the country according to the laws of *Sharī'ah*, Bangladesh was privileged to establish the first Islamic Bank in South-East Asia, the Islami Bank Bangladesh Ltd. (IBBL), on 13th March 1983 under Companies Act of 1913 (Sarker, 2009). The IBBL is basically a joint venture of IDB-Jeddah, Al-Rajhi Company, Kuwait Finance House, Jordon Islamic Bank, Islamic Investment and Exchange Corporation Qatar, Bahrain Islamic Bank, etc. The involvement of the Bangladesh Islamic Bankers Association (BIBA, 1980), Islamic Economics Research Bureau (IERB 1976) Bangladesh together with Islamic Banking Training and Research Academy (IBTRA, established in 1984) expanded the scope of IBF sector in Bangladesh. Exhaustive measures were taken towards establishing Islamic banking in the country by providing and conducting training workshops/seminars. The foundation of Islamic banks likes, Al Baraka Bank Ltd., in 1987 (Joint venture of Al Baraka and IsDB Saudi Arabia), Al-Arafah Islami Bank Bangladesh Ltd. (1995), and Social Investment Bank Ltd. (1995), were significant achievements towards the consolidation of the IBF industry in Bangladesh. (Islamic Bank Bangladesh, 2011; Sarkar, 1999). Currently, IBF system in Bangladesh is making endeavors to embrace all sectors of the country's economy. Until now, 8 full-fledged Islamic banks with 966 branches and 17 windows of conventional banks are offering IBF products. Moreover, Dhaka Stock Exchange DSE, and Chittagong Stock Exchange CSE, have substantial *Sharīʻah* indices from banks' mutual funds, and insurance companies and it is estimated that almost 11 *Takaful* companies are working in Bangladesh with more than US$900 asset base in Bangladesh (Islamic Finance News Guide, 2017). Moreover, the policymakers in Bangladesh are keen to introduce an ethical business environment (Khan, 2020).

Turkey

In 1983, Turkey initiated the creation of Islamic banks as Special Finance Houses SFHs, with unprecedented privileges like exemption from the provisions of the existing banking legislation. These SFHs were required to keep only 10% reserves with the central bank instead of the normal 15%. There were no lending limits and deposit insurance requirements required for SFHs, which were also allowed to deal in commodities. These dispensations were granted to SFH, in the wake of Turkey's serious financial crises, for which, the country required substantial aid, to be received particularly from IsDB-Jeddah (Warde, 2000). Under Necmettin Erbakan, (first ever Islamist Prime Minister appointed in 1996 of *Refah Partisi* or Welfare party which was earlier known by the name *Milli Nizami Partisi* or National order party in the 1970s), Islamic finance began to establish its roots in Turkey. However, with Necmittin's forced displacement from the office in 1997 by National Security Council for his Islamist thinking, the emerging IBF system began to recede as the new administration was cold towards IBF, and its actions directly affected and degraded the activity of SFHs (Gole, 1997; Warde, 2000).

Currently, there are five Islamic Banks or generally referred to as 'Participation Banks' in Turkey, (Albaraka Turk, Turk Asya, Kuveyt Turk, Turkiye Finans, and Ziraat Katilim), among which three are owned by banks in GCC. In order to strengthen the emerging IBF sector, the Turkish government, towards the end of 2015, sponsored the establishment of three state-owned Islamic Banks (Ziraat Bank, Vakif Bank, and Halk Bank) as the subsidiary of the state-run conventional Banks. However, the licenses of only the first two banks have been approved (Islamic Finance News Guide, 2015, 2018).

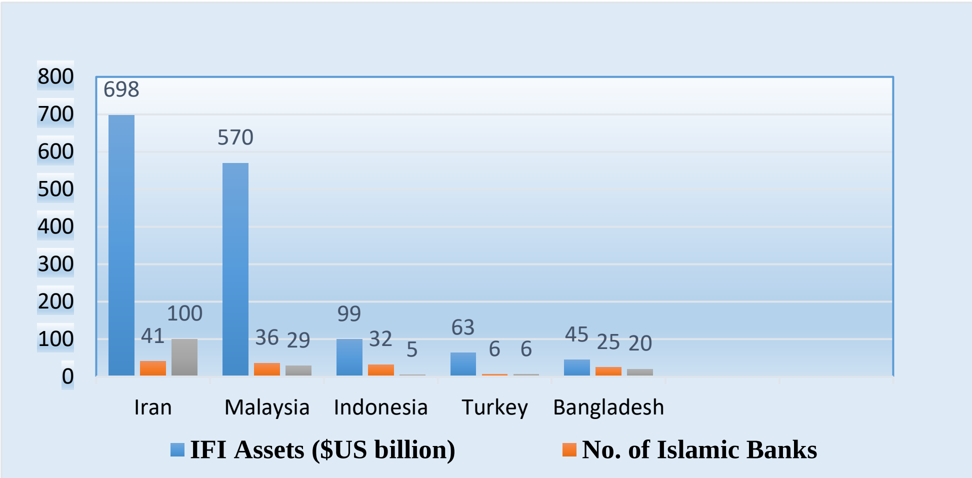

Figure 4. IFI Assets, Number of Islamic Banks, Banking penetration in top 5 Asian Jurisdictions
Source: IFDI-Refinitiv Report 2020

Western World

United Kingdom

The establishment of Al Baraka Bank London in 1982 under the aegis of the Jeddah based, Al Baraka Investment Company, marked the emergence of IBF sector in the United Kingdom through the formal services started only after the enactment of the 1987 Banking Act (Ellinger, Lomnicka & Hare, 2011). After this United Bank of Kuwait, based in London formed a special Islamic Banking Unit in 1991 for Islamic trade-based investments and in 1995 this unit became an Islamic investment banking unit. (Baba, 2007). as cited in Beloufi & Chachi (2014). The foundation of the Islamic Bank of Britain IBB, in 2001, induced considerable impetus to the nascent IBF sector in the UK and FSA (Financial Services Authority) in 2004 authorized IBB as the first Islamic retail bank. Besides, IBB numerous banking and financial institutions that began to offer IBF services (like investment banking, corporate finance, trade finance, leasing, and mortgages) include, European Islamic Investment Bank, HSBC Amanah 2004, Al Buraq (a subsidiary of Arab Banking Corporation), Lloyds TSB 2005, ABAC International Bank Bristol and West Building Society, Clifford Chance, Norton Rose, Dawny Day and First Ethical (Baba, 2007). The consolidation of IBF sector in the UK was further facilitated when the UK government in its Financial Act of 2003, abolished double stamp duty on Islamic mortgages. This was fueled by the emergence of the London Stock exchange (LSE) as UKs first Sovereign *Sukuk*-(represent *Sharī'ah* -compliant securities that are backed by tangible assets) issuer in 2010, in addition to the establishment of Islamic Insurance Association of London, (IIAL) in 2015 (Ainley, et al, 2007; Price Water Coopers, 2012; The Cityuk, 2019).

United States

In the US, IBF works around the LARIBA and the American Finance House established in 1987 in Pasadena, California, and Amana Funds in Bellingham, Washington. LARIBA emerged as a *Sharīʻah* compliant home finance company, while the latter as a mutual fund company, and both these institutions are considered the building blocks of IBF sector in US. Many conventional banks and financial institutions in the US, like other Western countries, opened IBF windows to participate in offering the IBF products/services to the relevant customers. Such institutions that provide IBF products (like retail Islamic banking and Home finance products) include, the Devon Bank [Devon bank is a community bank operating in north of Chicago since 1995 started Islamic Finance Division in 2003 (source www.devonbank.com], the Shape Financial Group (*Sharīʻah* compliant product development firm), Guidance Financial Group (Islamic Mortgage Broker Virginia 2002) and University Bank of Ann Arbor Michigan 2005 (Goud, 2009; Hasan & Lewis 2007; Zyp, 2009). It is pertinent to mention here that the major financial regulatory/supervisory Authorities like the Federal Reserve, Office of the Comptroller of the Currency (OCC) of the US treasury department, Securities and Exchange Commission (SEC), Federal Deposit Insurance Corporation (FDIC) have common criteria of regulation for the conventional and IBF institutions (Goud, 2009; Jammeh, 2010). The Islamic Finance sector of the US-made further progress with the launching of the Dow Jones Islamic Market Indexes in 1999 and in 2001, the entry of Freddie Mac and Fennie Mac (US Mortgage Finance companies) into the Islamic home finance provided boost to the Islamic home finance industry (Price Water Coopers, 2012).

Australia

In Australia, the financial services based on *Sharīʻah* are sponsored/offered by Muslim Community Cooperative Australia (MCCA) Melbourne since 1989. MCCA, actually a co-operative, provide *Halal* financial services (business and personal finance, *Qarḍ al-Ḥasan*, *Halal* investments, *Zakat* collections, and distributions) to the Muslim community of Australia. Besides MCCA, the other IBF players in Australia are Iskan Finance (offering mortgage and leasing products) and Muslim Community Credit Unit Ltd (MCCU) established in 1999 focuses on retail, and banking services (Mirza & Halabi, 2010). The current financial regulatory setup in Australia, (like the Reserve Bank of Australia, Australian Prudential Regulatory Authority APRA, Australian Securities and Investments Commission ASIC) does not possess any framework for IBF institutions (Ahmad & Hassan, 2009). However, despite this regulatory bottleneck, Islamic finance in Australia continues to be in limelight, particularly from 2010 onwards when Australia's Tax Laws Review by the Board of Taxation allowed accommodating IBF windows. This was further reiterated in the 2016 Budget by referring to asset-backed finance and its importance for the country's infrastructure development (Islamic Finance News Guide, 2018). Interestingly, in 2017, Australia with Cyprus and Nigeria witnessed the fastest growth of IBF Assets (Thomson-Reuters 2018).

5. Conclusion

The Islamic finance industry has a vast arena of research when looked at and debated through the contemporary Socio-Academic and financial scenario. The success of Islamic banking and finance on the global scene makes Economists, Financial Experts, and Policymakers all over the world focus on the diversified patterns of the Islamic Financial Industry through rigorous research. Despite these significant developments, IBF is still an evolving phenomenon adding novel dimensions to widen its application and operational horizons. The discussion in the paper reveals that the academic endeavors from 1940 to 1970 are important for the ideological background of IBF, but on the parallel side the developments in the political and economic sector of the Middle East substantially acted as a launch pad for IBF in the corporate sector globally. It is also an established fact that the internationalization and standardization of IBF, in the modern era owe much to the Impact and implementation of IBF, in several important jurisdictions of the world as mentioned in the paper.

Limitation and study forward

The present study though highlights the relevant strides behind the emergence of Islamic Finance in the Geoeconomic scenario, but does not include the impact of other factors like the Alliance of Shariah scholars and Bankers, 9/11 impact on IBFI, stability of Islamic Finance in 2008-2009 crisis, etc. these concepts highlight the dynamic growth of Islamic Finance post-2000 C.E., in terms of Assets as well as geographical landscape and has presented Islamic Finance as an Alternate economic system. This invites the attention of scholars/experts for an exhaustive study of this growing industry. The focus to engage the untapped markets of developing nations like non-OIC members and the *Sharīʻah* compatibility factor should be given preference. The product development or tailoring should be meticulously done with proper *Sharīʻah* guidance and the PLS (Profit-Loss) Mechanism, which is the basic structure of Islamic finance, should be promoted substantially in Islamic finance intermediation.

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