

A Brief Review of Growth and Development in Islamic Banking

Dr. Shakeel ul Rehman¹, Ikhlas Wani², Mir Khanam³, Yasser Saleh Ali Almonifi⁴

1 (Assistant Professor, Department of Management Studies, School of Business Studies, Islamic University of Science & Technology, Awantipora-192122; J&K-India);

2 (IMBA-19-16, IMBA-3rd sem, Department of Management Studies, Islamic University of Science & Technology, Awantipora-192122-J&K-India);

3 (IMBA-19-37, IMBA 3rd sem, Department of Management Studies, Islamic University of Science & Technology, Awantipora-192122-J&K-India);

4 (Department of Commerce, Dr. Babasaheb Ambedkar Marathwada University, Aurangabad- 431004- Maharashtra-India)

Abstract

The major purpose of this article is to illustrate the rapid expansion of Islamic banking and finance in today's financial world. It tracks the performance of Islamic banking in more than 25 countries using various indicators and indexes from across the world. Muslims have been able to build a system without interest for mobilizing resources to finance economic activity and consumer demands for a very long period in Islamic history. During the height of Islamic culture and for centuries later, the system functioned admirably. As is well known, throughout the twelfth and thirteenth centuries, partnership and profit-sharing, established the foundation of business and industry in the Mediterranean region rather than interest-based borrowing and lending. However, when the world's economic center migrated to the West over the ages, western banks and financial institutions began to dominate, while the Islamic heritage remained dormant. The Muslim world accounts for almost 24.1 percent of the world's population (over 1.8 billion people). Islamic banking could be able to reach the bulk of global customers. Due to Muslims' desire to prevent war, there has been a significant resurgence of interest in creating a new version of the ancient Islamic banking system in recent years. As a result, there is a true surge and expansion in Islamic finance and business across the world. It has grown fast in the Middle East and South East Asia. These Islamic centers have acted as a springboard for the promotion of Islamic banking in Western business and financial markets. The findings of the paper hold the Islamic banking sector has made substantial progress in becoming a truly competitive and profitable global alternative to the traditional banking system.

Key words: Banking, Islamic Banking, Shariah Compliant, Economic Development

Date of Submission: 01-06-2021

Date of Acceptance: 14-06-2021

I. Introduction

Islamic banking or Shariah-compliant Islamic finance is an economic system based on Islamic Shariah rules. There are several definitions of Islamic banking. The OIC General Secretariat has agreed to the following concept of an Islamic bank: "An Islamic bank is a financial entity whose position, laws, and procedures specifically state adherence to Islamic Shariah principles and the prohibition on the collection and payment of interest on any of its activities". Some analysts interpret the notion through the lens of the Islamic economy and Islamic banks, which include commercial investment and social activities in their roles and practices, as a structure intended to achieve the sophisticated goals of an Islamic economy. Islamic banking is a normative concept that can be described as banking practice that adheres to the rules of the Islamic value system. The development of the Islamic banking is increasing widely, and all Islamic and non-Islamic countries have now paved way for the one or other forms of Islamic financing (Siddiqi, 2000; Jaffer, 2006). So the aim of this paper is to draw global attention to the fastest growing sector in the modern world of finance. With the growth of Muslim population around the globe, it is now regarded as an industry that contributes more ethical, sustainable, agile, and diverse resources and processes to global capital markets (Arekat, 2006; Cader, 2007). It draws attention to the rising number of Islamic banking products, systems, infrastructures, and supporting institutions in recent years (Khan & Bhatti, 2008). The latest developments in the Islamic banking industry around the world captured in this paper will get us through the strength, future opportunities, and aspirations of Islamic banking to become a genuinely creative, sustainable, and integrated part of contemporary global finance.

II. Historical Background of Islamic Banking

According to Islamic economists Choudhury and Malik, the abolition of interest occurred gradually in early Islam, culminating in a fully-fledged Islamic economic system under Caliph Umar (634-644 CE). Other sources, however, disagree, claiming that the giving and taking of interest remained in Muslim culture at times through the use of legal ruses, frequently openly, even under the Ottoman Empire. Others claim that throughout the Islamic golden period, among classical jurists of Islamic law and economics, the common sense of *riba* was that adding interest to gold and silver currencies was forbidden, but that it is not *riba* and that applying interest to fiat money is permitted to some extent. In response to the growth of European power and influence, as well as its colonization of Muslim nations, Islamic modernists questioned the prohibition on interest, arguing that if interest rates and insurance were not needed for profitable investment in a modern economy, in the late nineteenth century. Other Islamic philosophers argued for a distinction between immoral *riba* "usury," which they considered as limited to charges on lending for consumption, and permissible non-*riba* "interest," which they regarded as charges on loan for commercial investment.

However, in the twentieth century, Islamic revivalists, Islamists & activists tried to redefine interest as *riba* in order to encourage Muslims to lend and borrow at Islamic banks that avoided set rates. By the twenty-first century, the Islamic Banking movement has established interest-free financial institutions all across the world. Loans are permissible in Islam if the interest paid is tied to the investment's profit or loss. In Islam, the notion of profit serves as a metaphor of equal sharing of earnings, losses, and risks. This movement began in the late 1940s and early 1950s with activists and thinkers like as Anwar Qureshi, Naeem Siddiqui, Muhammad Hamidullah and AbulA'la Maududi. They saw commercial banks as important and advocated a banking system based on the *Mudarabah* model, in which shared return on investment would replace interest. Further Muhammad Uzair (1955), Abdullah Al-Araby (1967), Mohammad Najatuallah Siddiqui, Al-Najjar (1971) and Muhammad Baqir al-Sadr also advocated interest-free banking in their work. The involvement of organizations, governments, and several conferences and studies on Islamic banking (Islamic Finance Ministers conference conducted in Karachi in 1970, Egyptian study in 1972, The First International Conference on Islamic Economics in Mecca in 1976, and the International Economic Conference in London in 1977) was influential in putting philosophy into motion with the first interest-free banks. At the First International Conference on Islamic Economics, several hundred Muslim scholars, sharia professors, and economists declared unequivocally that all forms of interest constituted *riba*. Following the Yom Kippur War and the 1973 oil crisis, the influx of Petrodollars and widespread re-Islamisation helped the development of the Islamic banking industry, which has extended internationally since 1975. With an expansion in the Muslim population in Europe and a present shortage of supply, chances for the vital role that Islamic finance plays in the European economy will appear. Luxembourg, in particular, is developing as a pioneer and Centre for Islamic finance.

In 1975 The Islamic Development Bank was established with the goal of providing money for projects in member nations. Dubai Islamic Bank was the first modern commercial Islamic bank to be formed in 1979. The Islamic Insurance Firm of Sudan was founded in 1979 as the first Islamic insurance (or *takaful*) company and the world's first Islamic mutual fund, was established in Indiana in 1986 in the name of The Amana Income Fund. From 1980 to 1985, Islamic investments grew dramatically throughout the Muslim world, drawing deposits with the promise of large returns and religious assurances provided by Islamic jurists hired to write fatwas condemning traditional banks and promoting their Islamic counterparts. This expansion was momentarily halted in 1988 in Egypt, the Arab Muslim world's largest country, when the Egyptian government reversed its implicit backing for the business and started a media campaign against Islamic banks. Some businesses went bankrupt as a result of the subsequent financial crisis. A consortium of Islamic financial institutions founded an accounting organization for Islamic financial institutions (Accounting and Auditing Organization for Islamic Financial Institutions, AAOIFI) in Algiers in 1990. In addition, the first marketable *sukuk* were issued by Shell MDS in Malaysia that year, ushering in the Islamic bond market. The Islamic Financial Services Board (IFSB), located in Malaysia, was created in 2002 as an international standard-setting body for Islamic financial institutions.

By 1995, there were 144 Islamic financial institutions across the world, including 33 government-run banks, 40 private banks, and 71 investment firms. When the huge US-based Citibank founded the Citi Islamic Investment Bank in Bahrain in 1996, it began to offer Islamic banking services. The Dow Jones Islamic Market Index (DJIMI) formed the first effective benchmark for the performance of Islamic investment funds in 1999. there was a false start in Islamic banking in the United Kingdom, when bankers filed returns for tax purposes while insinuating to depositors that they were truly "profit" and so not *riba*. Islamic scholars issued a fatwa saying that they had no problem to the term "interest in loan contracts" being used for tax avoidance reasons as long as the transaction did not truly entail *riba*, and the term was coined by Islamic bankers who were concerned that a lack of tax deductions for interest payments would put them at a competitive disadvantage with regular banks. Customers who were Muslim were not swayed.

By 2004, the influence of this concept, which serves as the basis of Islamic banking, had been demonstrated in Pakistan, the world's second largest Muslim country, when a minority (non-Muslim) member of the Pakistani parliament challenged it, pointing out that a scholar from Al-Azhar University (one of the world's oldest Islamic Universities) had released a decree claiming that bank interest was not un-Islamic., the first Islamic commercial bank established outside the Muslim world, The Islamic Bank of Britain was established in 2004-05.

By 2008, Islamic banking was increasing at a pace of 10–15 percent per year, with more expansion predicted. There were approximately 300 Islamic financial institutions scattered over 51 nations, as well as an additional 250 Islamic mutual funds. According to the economist magazine, around 0.5 percent of global financial assets are under sharia-compliant management. However, as the business evolved, it garnered criticism for not evolving from debt-based contracts, such as murabaha, to more profit and loss sharing contracts, but instead heading in the opposite way, vying to present themselves with all of the same qualities as the conventional, interest-based markets.

Initially, Islamic banks were untouched by the toxic assets that accrued on the balance sheets of US banks after the 2008 global financial crisis because they were not sharia compliant and were not owned by Islamic banks. In 2009, the Vatican's official journal proposed that the ethical principles on which Islamic banking is built may bring banks closer to their clients and to the real spirit that should characterize all financial services. However, the slump in real estate and private equity valuations following the bankruptcy of Lehman Brothers Islamic - two categories substantially invested in by Islamic enterprises — harmed Islamic financial institutions. According to the State of the Global Islamic Economy study, \$2.004 trillion in assets were handled in a sharia compliant way as of 2015. Sukuk accounted for \$342 billion of this total. In year 2015, the market for Islamic Sukuk bonds had grown to 2,354 sukuk issues, and it had become strong enough that sukuk were issued by numerous non-Muslim majority countries, including the United Kingdom, Hong Kong, and Luxembourg. There are several Shariah-compliant indices that have been formed through Shariah-compliant company screening. DJIM, S&PSI, MSCI, and country-specific indexes such as KMI-Pakistan and SCM-Malaysia are examples of such indices.

III. Literature Review

Despite the fact that the first modern Islamic bank opened its doors forty years ago, estimating the true size of this exponentially expanding market remains challenging. (Gheeraert, 2014). According to one report, the compound annual growth trend of global Islamic banking assets from 2009 to 2013 was 17.6 percent. By 2018, an estimated annual growth rate of 19.7 percent is predicted (EY, 2014). Islamic banking has the potential to assist disadvantaged communities such as farmers and SMEs, as well as to promote sustainable economic development (Fasih & Huda, 2012). The most notable difference between Islamic Banks and other commercial banks is Islam's interest moratorium, which prohibits Islamic banks from providing fixed interest rates on deposits or charging interest on loans to their borrowers (Chong & Liu, 2009). The idea that financial deals should be based on a profit-and-loss distribution concept is supported by Islamic law (Uppal & Mangla, 2014). Furthermore, a financial transaction must be supported by an economic transaction involving a tangible estate (Beck, et al., 2013). To discuss the risk profile and cost effectiveness of Islamic banks, risk sharing among the parties involved (borrower, lender, and bank) contributes to less speculation and the growth of low-risk financial instruments (Arouri et al., 2013). It is not feasible, for example, to issue loans that are not needed for a real transaction by connecting the participants. Thus, in Islamic banking, credit growth is closely related to actual economic growth (Ahmed, 2010). The latest global financial crisis, as well as the resulting need for competitive alternatives to traditional banking, justify and encourage the previously reported tremendous growth rates. Islamic banking is a good choice not only in Muslim countries, but it is also a growing financial alternative in many Western countries, owing to ethical and moral laws, as well as a perceived higher risk perception. Nonetheless, few people are familiar with the history of this rapidly growing industry, so predict high growth rates in Islamic finance in the coming years. Furthermore, the sector's exponential growth is largely due to the fact that, after the latest global financial crisis, legal and moral rules are more critical than religious issues (Jawadi et al., 2014).

A major challenge in the Western world, in particular, is the continuing skepticism about incorporating religious questions into the economy. The religious basis on which the Islamic definition is based varies greatly from a conventional economic viewpoint, which often excludes social and ethical considerations in favour of growth and profit maximization (Fang & Foucart, 2013). Not only has the demand changed, but the institutions themselves have taken different steps to make Islamic banking a reality (Dees, 2007). Current literature indicates that getting an impartial perspective on Islamic banking and finance by literature review is challenging because there is a clear opposition between supporters and skeptics (Fang, 2014). As a result, it is important to remember that Islamic banking is also a high priority today, with almost every major bank developing separate

Islamic banking branches, the true aim of Islamic banks in the case of social welfare vs benefit maximization(Abedifar et al., 2014;Khan, 2010).

As the writers explain the topics' importance, it is also deemed appropriate to address the future of Islamic banking. While several reports have been conducted on projected development in the coming years, it is unknown how this growth will impact the Islamic banking sector as well as the banking sector as a whole in the future. Not only did the consequences of development need to be investigated, hedging in Islamic finance, for example, can be discussed as a relevant future topic. Hedging is historically prohibited in Islamic finance due to the risk elements involved.(Siddiqui, 2008).Nonetheless, potential studies will include alternatives by creating new Shariah-compliant hedging instruments. Religions construct the framework for people's interpretation of what is right and wrong in accordance with the principles that are often the foundation for ethical action (Parboteeahet al., 2007).

Since Islamic banks' business models are based on Islamic law, Shariah, which represents religious values, has its own ethical identity. Shariah values were developed primarily to foster not only religious faith but also social welfare and justice. Islamic banks also impose social targets such as charitable donations and generous loans to economically vulnerable individuals (Haniffaand-Hudaib, 2007).The challenge for the financial sector is to strike a balance between the needs of different stakeholders (Mallin, et al., 2014). The aim of Islamic banks is to fully integrate legal, environmental, and social issues. In reality, this concerns not only consumers and the general population, but also the participating sectors. This ensures that businesses that serve as partners of Islamic financial institutions should be limited in their ability to cover any forbidden transactions, and their business models must be consistent with Shariah's religious, legal, and ecological objectives(Mohamad, 2014).In the face of persistent ecological issues, the whole finance sector should accept accountability and work for the aim of sustainable growth(Richardson, 2008).Coding was first performed on the basis of headlines and abstracts to approximately separate the reviewed documents into central categories. This made it easier for the researcher to summarize and structure the available data, but it also increased the possibility of overlooking interactions between the various categories(Denzin & Lincoln, 2011).The researchers categorize the papers based on their content after establishing five core research topics, namely Fundamentals and History, Ethics and Sustainability, Risk in Islamic Finance, Financial Instruments, and Coexistence of Islamic and traditional banking (Bryman, 2012).Islamic banking, which uses Islamic law values as its foundation, has grown in importance in the global financial market in recent decades. Islamic banks have developed themselves as viable alternatives in the global financial industry, offering a wide range of goods and services.

IV. Objectives

To study the developments in Islamic banking over a period of time in selected countries around the world and to know the level and contribution of Islamic banks in economic growth.

V. Methodology of the study

The study employs secondary data sources only to discuss growth and development of Islamic Banking throughout the world, while the design of the study is descriptive in nature.

VI. Discussions

Growth of Islamic Banking

Sharia-compliant banking expanded at a 17.6 percent annual rate between 2009 and 2013, outpacing traditional banking, and is expected to be worth \$2 trillion, although at 1% of the global economy, it is still much smaller than the conventional market. As of 2010, there were 105 Islamic financial institutions operating in 105 countries. The country with the highest Islamic banking industry, according to statistics, varies. According to the 2016 World Islamic Banking Competitiveness Survey, Saudi Arabia, Malaysia, the United Arab Emirates, Kuwait, Qatar, and Turkey accounted for more than 87 percent of foreign Islamic banking reserves. According to QFC Authority chief executive officer Yousuf Mohamed al-Jaida, Islamic financial assets in Qatar were estimated at \$97 billion at the end of 2017, accounting for approximately 81 percent of overall Islamic finance assets. The country also announced the opening of an oil-focused Islamic bank with \$10 billion in capital in 2019, making it the world's largest Islamic lender for energy ventures. However, Shias make up the rest of the population. Iran leads the way in Islamic banking with \$345 billion in Islamic deposits, led by Saudi Arabia with \$258 billion, Malaysia with \$142 billion, Kuwait with \$118 billion, and the United Arab Emirates with \$112 billion. According to Warde (2000) Islamic banks in the UAE also offer Shariah-compliant Islamic investment programs. And according to researchers, According to the most recent central bank reports, Iranian banks accounted for more than a third of the total volume of Islamic financial deposits in the world. As of March 2014, Iran's banking reserves totaled 17,344 trillion riyals, or \$523 billion at the free market exchange

rate. As of November 2015, three of the top ten Islamic banks in the world based on return on assets were Iranian, according to The Banker.

Table 1: Growth of Islamic Banking Assets throughout the world

Year	Assets (approx.) in billion USD			
	Banking Assets	Sukuk	Takaful	Funds
2013	1350	140	10	40
2014	1540	175	10	60
2015	1590	190	15	60
2016	1600	200	15	40
2017	1680	210	15	70
2018	1680	250	15	60

Source: Central banks, Islamic Financial Service Board, Eikon, S&P Global Ratings.

The statistical evidence presented above tells us about the global expansion of Islamic banking assets. In 2019-2020, the Islamic finance industry is expected to expand steadily. According to projections, the growth of these assets was around 2% in 2018, compared to 10% the previous year, with good support from the sukuk industry (depicted in table 1 and fig. 1).

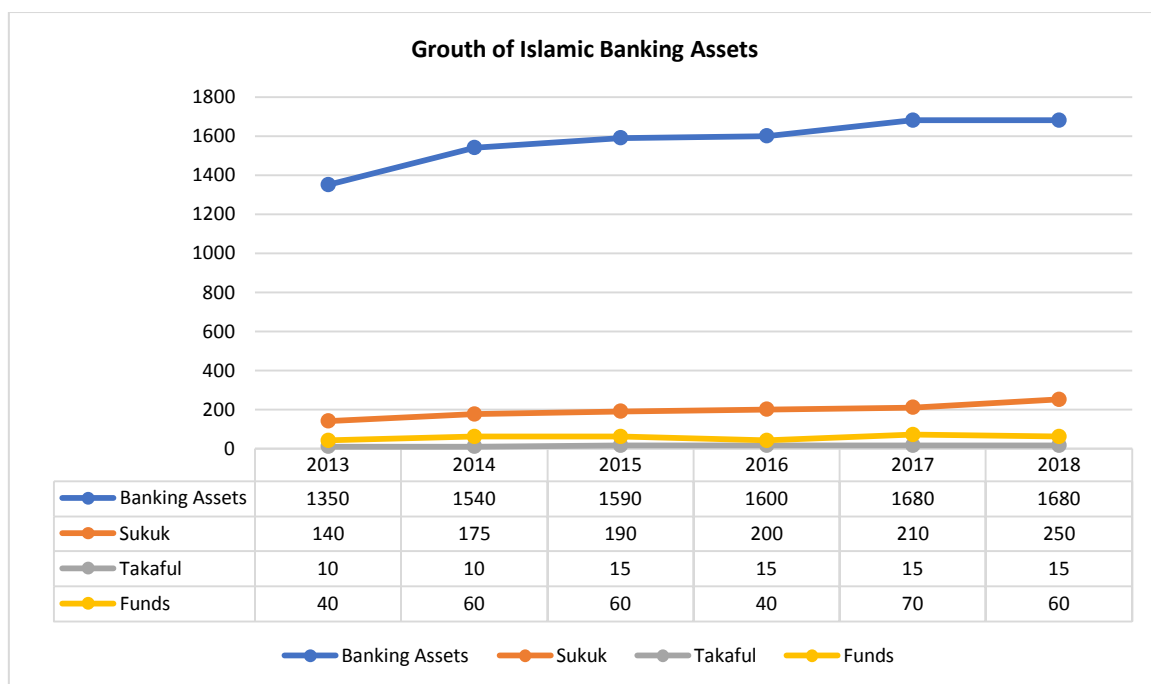


Figure 1: Growth of Islamic Banking Assets throughout the world

Banking asset growth has also declined in almost all key Islamic finance markets. According to the relevant note, Turkey and Iran are at the forefront of the downturn, which they anticipate to continue in the coming months.

Table 2: GCC Islamic Banks' Return on Assets

Item (%)	2013	2014	2015	2016	2017	2018
Average intermediation margin	2.8	2.8	2.7	2.5	2.6	2.5
New loans loss provision/average customer loans	1.0	0.9	0.9	0.8	0.7	0.5
Returns on assets	1.5	1.5	1.6	1.4	1.5	1.6
Non-interest expenses/operating revenues	41.5	40.7	39.1	40.7	40.6	41

Source: S&P Global Ratings, banks' financial statement.

Profit growth in GCC Islamic banks is expected to be modest in 2019 and 2020. Since the opening impact of IFRS9 is paid to banks' equity statements, the return on assets of banks in our sample increased slightly over the last year due to lower risk costs. We anticipate that funding growth will remain constrained, with banks emphasizing quality over quantity and avoiding rewarding but higher-risk exposures. This is particularly true considering that IFRS 9/FAS 30 needs lifetime provisioning for credit-quality declines or repayment problems (see table and 2 fig. 2).

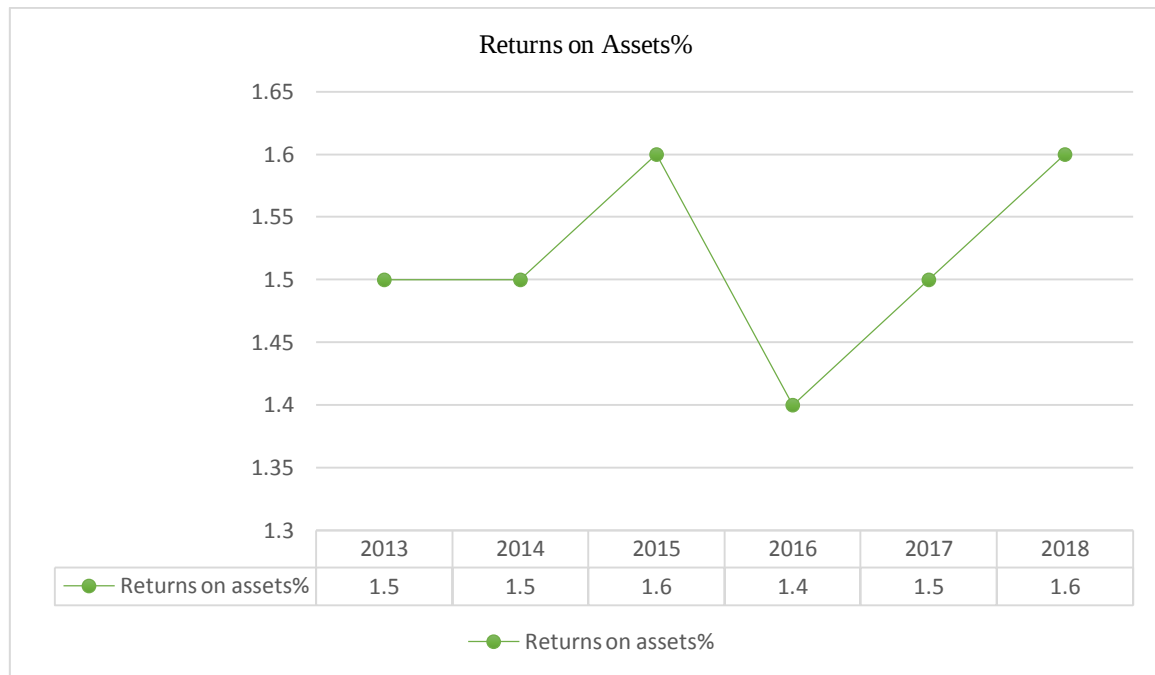


Figure 2: GCC Islamic Banks' Return on Assets

Table 3: GCC Islamic Banks' key funding and liquidity metrics

Item	2013	2014	2015	2016	2017	2018
Growth in customer deposits%	N. A	14.0	6.0	5.4	6.4	2.5
Liquid assets/total assets%	24.7	23.4	22.1	21.3	21.0	21.4
Customer loans(net)/customer deposits%	87.1	88.8	92.3	93.2	93.3	92.6

Source: S&P Global Ratings, banks' financial statement.

Customer deposits in GCC Islamic banks fell by half to 2.5 percent in 2018, compared to 6.4 percent in 2017, due to the surrender of some costly deposits and the weakening of the Turkish lira, which impacted the financial performance of some banks denominated in US dollars (depicted in table 4). However, due to relatively subdued loan expansion, these banks' funding profile remained steady and comparable to traditional peers. The ratio of financings to total deposits for Islamic banks was 92.6 percent at the end of 2018, and no major changes in the funding and liquidity profile are planned in the coming fiscal year (see table 3).

Table 4: Asset-Quality of Islamic Banks versus Conventional Banks (2013-2018)

Asset quality	2013	2014	2015	2016	2017	2018
Islamic Banks						
Non performing advances ratio	4.2	3.3	3.0	3.1	3.2	3.1
Non performing advances coverage	106.5	114.2	128.4	135.3	131.6	167.7
New loan loss provisions (LLP)/average customer loans	1.0	0.92	0.95	0.83	0.74	0.65
Conventional Banks						
Non performing advances ratio	3.5	2.9	2.5	2.7	2.7	3.1
Non performing advances coverage	133.0	167.7	168.4	158.0	153.6	168.1
New loan loss provisions/average customer loans	1.01	0.87	0.92	1.18	1.06	1.09

Source: S&P Global Ratings, banks' financial statement.

As represented in table 4, in 2018, GCC Islamic banks' asset-quality indexes stabilized, with the non-performing loan ratio averaging 3.1 percent of total financings. Provisions more than outweigh these exposures on the same day, with a coverage ratio of 167.7 percent. This was an improvement over 2017, thanks to the introduction of International Financial Reporting Standards (IFRS) 9 or Financial Accounting Standard (FAS) 30 for banks reporting under the rules of the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI).

Furthermore, Islamic banks' asset quality indices did not fall in 2018, unlike traditional banks, who saw their non-performing loan (NPL) level rise to 3.1 percent on average in 2018 from 2.7 percent at the end of 2017. This improvement is attributed to the clean-up and write-off operations of some Islamic banks in their study, rather than a true improvement in asset quality.

Major Developments in Islamic banking

In today's developing world, the Islamic banking industry has served as a backbone of growth in a number of countries. Because of the unique features of non-interest loans, many countries have begun to expand without incurring debt. This supports the economy by shifting the pressure away from the promoter and onto the shoulders of financial institutions.

The Islamic banking sector has grown dramatically over the last five years. The existing assets in the Islamic banking market alone are projected to be worth more than \$500 billion. Over 250 Shariah-compliant mutual funds currently manage approximately US \$ 11 billion in assets. So far, about \$ 18 billion in corporate and sovereign sukuk bonds have been sold. Islamic finance is gaining popularity among both Muslims and non-Muslims. With the launch of Islamic cards and Shariah-compliant consumer finance goods, Islamic banking is increasingly making its way into retail banking. Major foreign players such as HSBC, Citigroup, Deutsche Bank, Standard Chartered, and BNP Paribas are also expanding their presence in the Islamic banking industry. With their global presence and demonstrated ability to innovate and produce world-class goods, the Islamic banking sector is expected to benefit from quality enhancements and a wide distribution network.

Any of the aspects in which the Islamic finance sector is integrating and contributing value to the global financial system are as follows:

- Convergence between ethical investments and Islamic finance.
- Poverty alleviation.
- Less risk for investors.
- Anti-money laundering.

In addition to standard audits, Islamic banks must perform Shariah reviews on their transactions to ensure Shariah compliance. This audit would identify any funds raised or used for haram (prohibited) practices. The Islamic finance industry has expanded rapidly over the last decade, and many optimistic forecasts have been made about its immense potential for future development. Islamic finance has evolved slowly over the last 30 years. Overall Islamic finance investments have grown year after year, as has product maturity, with a growing number of countries, companies, and organizations participating in the sector. According to the most recent estimate, overall Islamic finance assets will be worth US\$1.8 trillion in 2013, a major improvement from the US\$1.3 trillion seen in 2011 (Fang, 2014). Simultaneously, facing losses such as the Dubai real estate collapse in 2010 and sukuk announcing an unusual loss in 2013, Islamic finance has proved to be more resilient than conventional finance. Many observers have hastily concluded that the future is bright, that Islamic finance is superior to traditional finance, and that it will inevitably overtake conventional finance.

Growth over the last few years has fueled hope for the future of Islamic banking. However, as competitiveness heats up and early indicators suggest that progress is declining, Islamic financial firms have a lot of work ahead of them. If the plan is to concentrate on niche positioning, compete head-on with traditional banks, or a hybrid of the two, most Islamic banks would need to improve productivity across the value chain in order to maintain expansion. Islamic banks who take the time to explore strategic options and discuss operating fundamentals will be in a better position to capitalize on untapped business opportunities and master the shifting dynamics of the sector. Some successful inventions by Islamic banks in recent years:

Increasing Deposits:

To realize the greatest benefit possible, it is necessary to differentiate between the long-term and the short-term. A bank, whether Islamic or not, is concerned with making a profit in the long run while keeping the short term in mind.

Improving the Quality of Services to Clients:

As some Islamic banks still pay little attention to the quality of services they provide to their customers, especially if they have monopolistic influence in the market. Many Islamic banks were once in this position when they were operating independently in their respective Islamic financial services markets. Today, however, the monopolistic status is eroding as a result of the proliferation of Islamic banks in many countries, as well as the entrance of traditional banks into Islamic finance markets.

Expanding the Base of the Banking Services:

Islamic banks began to broaden their business offerings by providing investment agency services such as the development of investment funds and special investment accounts.

Preservation of Capital:

Protecting capital is one of the most critical factors in optimizing benefit in the long term because evaporation and lack of capital not only lead banks to lose new investments, but they also cause banks to lose the means to meet their very objectives.

Humanitarian and Social Services:

Without a question, delivering humanitarian and social assistance to the local population strengthens the relationship between the bank and its surroundings. This increases the number of deposits and other financial transactions.

The below table (5) interprets IFCI scores of selected countries, some of the most important and highlighting facts are:

- With an 81.93 ranking, Indonesia has surpassed Malaysia, which had led the index since 2011. Iran and Malaysia have previously held the number one spot.
- There has been no improvement in the rankings of four nations (Turkey ranked 13, Switzerland ranked 27, Singapore ranked 29, and Palestine ranked 36). This is the highest annual difference in IFCI's annual ranking since its inception.
- 44 countries have seen improvements in their IFCI ratings, 14 positively and 28 negatively. This is in contrast to the previous year, when only 14 countries had their rankings improve.
- It should be remembered that all countries' IFCI scores have improved, with the exception of four, most notably Saudi Arabia, which saw its IFCI score fall by 6.01 points. This means that, while IBF has grown in most countries, Saudi Arabia's IBF demand has shrunk in the last year.
- Morocco made a significant jump in 2018, moving from 48th to 19th place. According to the global IBF, Morocco is quickly becoming popular, and it is currently one of the top 20 IBF markets in the world. Kazakhstan boosted its ranking from 24th last year to 18th this year, making the highest jump this year.
- Afghanistan is another gainer, having risen 10 places from 30th last year to reach the top 20 chart. Brunei Darussalam and Sudan are two other net gainers, improving by 8 and 6 positions, respectively.
- The data further demonstrates the sample's robustness and scale. In all, 48 countries are included in the survey (less than some other indices being reported in the industry).
- Countries in the Gulf Cooperation Council (except Oman) as well as Pakistan, Jordan, Tunisia, Sri Lanka, Kenya, Lebanon, India, Australia, Gambia, and Senegal are net losers.
- The IFCI score falls below 1.00 at the 39th position, implying that the information contents provided by the 10 countries is almost negligible.

It's also worth noting that the overall IFCI score rose in 2019 to 16.17 from 11.12 the previous year.

Table 5: Latest Islamic Finance Country Index Scores (IFCI Scores)&Ranks

Countries	2019 Score	2018 Score	Changes in Score	2019 Rank	2018 Rank	Changes in Rank
Indonesia	81.93	24.13	+57.80	1	6	+5
Malaysia	81.05	81.01	+0.04	2	1	-1
Iran	79.03	79.01	+0.02	3	2	-1
Saudi Arabia	60.65	66.66	-6.01	4	3	-1
Sudan	55.71	17.09	+38.62	5	11	+6
UAE	45.31	39.78	+5.53	7	4	-3
Bangladesh	43.01	17.78	+25.23	8	10	+2
Kuwait	40.90	37.67	+3.23	9	5	-4
Pakistan	36.88	24.01	+12.87	10	7	-3
Bahrain	30.09	22.35	+7.74	11	8	-3
Qatar	29.88	20.01	+9.87	12	9	-3
Turkey	20.77	13.01	+7.76	13	13	-
Oman	19.21	7.01	+12.20	14	16	+2
Jordan	18.33	13.01	+5.32	15	12	-3
Egypt	11.00	10.01	+0.99	16	15	-1
Kazakhstan	5.71	2.12	+3.59	18	24	+6

Morocco	5.30	0.01	+5.29	19	48	+29
Afghanistan	5.01	1.75	+3.26	20	30	+10
Tunisia	4.09	3.01	+1.08	22	20	-2
Lebanon	3.30	2.70	+0.60	25	22	-3
Nigeria	2.29	2.34	-0.05	26	23	-3
Azerbaijan	2.01	1.17	+0.84	31	35	+4
Yemen	1.99	2.00	-0.01	32	25	-7
Syria	0.99	0.88	+0.11	39	37	-2
Ghana	0.77	0.41	+0.36	42	44	+2
Senegal	0.57	0.55	+0.02	47	42	-5

Source: *Islamic Finance Country Index-IFCI 2019*

Hossein Askari, an economist, popularized the term Islamicity Index, which is now implemented by the Islamicity Foundation. This distinction shows whether the two indexes are identical or dissimilar. The Islamicity Performance Index is a metric for measuring performance that can indicate the quality of performance depending on its practices in compliance with Sharia principles. This index was created to help creditors, depositors, lenders, governments, religious boards, and others assess the success of Islamic financial institutions. The values of the IFCI for 2019 are compared to those of the Islamicity Index for 2018. It is worth to note that the top nation on the IFCI, Indonesia, ranks 64th on the Islamicity Index. Switzerland is ranked fifth (the highest position attained by a country on Islamicity Index, which is also ranked under IFCI). Switzerland is ranked 27th in the world by the IFCI. This study indicates that there is no strong connection between the two indexes, with a very high standard deviation between them (depicted in table 6).

Table 6: IFCI and Islamic Index (selected countries)

Countries	IFCI 2019 Score	IFCI 2019 Rank	Original Islamicity Index Rank 2018	Islamicity Index For The Muslim Countries
Indonesia	81.93	1	64	5
Malaysia	81.05	2	47	2
Iran	79.03	3	125	20
Saudi Arabia	60.65	4	85	12
Sudan	55.71	5	152	27
UAE	45.31	7	45	1
Bangladesh	43.01	8	131	14
Kuwait	40.90	9	66	7
Pakistan	36.88	10	140	24
Bahrain	30.09	11	70	9
Qatar	29.88	12	48	3
Turkey	20.77	13	95	16
Oman	19.21	14	61	4
Jordan	18.33	15	80	10
Egypt	11.00	16	137	23
Kazakhstan	5.71	18	65	6
Morocco	5.30	19	94	15
Afghanistan	5.01	20	146	25
Tunisia	4.09	22	86	13
Lebanon	3.30	25	118	18
Nigeria	2.29	26	133	21
Algeria	2.01	30	129	20
Azerbaijan	2.01	31	99	17

Yemen	1.99	32	153	27
Syria	0.99	39	149	25
Ghana	0.77	42	67	8
Senegal	0.57	47	83	11

Source: Islamic Finance Country Index-IFCI 2019

VII. Conclusion

The statistical results as presented above and the various indices with reference to different parameters on the Islamic Banking show positive impact of Islamic banking towards the economic growth and development. The exponential growth of the Muslim population worldwide, along with increased knowledge of Islamic banking, offers a lucrative window of opportunity for the Islamic banking system. However, when offering Islamic banking products, banks must consider key location and specific considerations, as well as establish target offers focused on a region's particular needs. As the Islamic finance industry is developing in the short and medium-term perspective, the trend towards changing sector activity is likely to continue. Islamic banking and financial instrument market will continue dominating the industry in terms of size. Further, the future of Islamic banking seems brighter than the conventional banking due to its interest free operations, Islamic investments, Islamic bonds, funds, and asset and wealth management. And also, the Islamic banking has not suffered from the global financial crisis but conventional banking.

VIII. Implications

In today's competitive and volatile financial system raising the awareness level and promoting the benefits of Islamic Banking not only in Islamic countries but also in non-Islamic nations is the need of the era. Islamic banking is becoming more common in various parts of the world today. If Islamic banking is extended to other areas of the world, it will help the masses because the money that is still sitting in banks, if deposited in an Islamic bank, will boost their economic conditions, especially in poor and developing countries. Since interest-free banking will help to encourage the education of the underprivileged, which would in turn help to generate more jobs, more courses related to Islamic banking should be offered so that people are aware of this form of banking. This will pave the way for the further growth of Islamic banking around the globe.

References

- [1]. Abedifar, P., Ebrahim, S., Molyneux, P., & Tarazi, A. (2014). Islamic Banking and Finance: Recent Empirical Literature and Directions for Future Research. *HAL archives-ouvertes*, 1-29, doi: hal-01073185.
- [2]. Ahmed, A. (2010). Global financial crisis: an Islamic finance perspective. *International Journal of Islamic and Middle Eastern Finance and Management*, 3(4), 306-320.
- [3]. Arekat, Z. (2006). Islamic finance forum, *Islamic Finance News*, 3 (3), 6 February, 19.
- [4]. Aroui, M. E., Ben Ameur, H., Jawadi, N., Jawadi, F., & Louhichi, W. (2013). Are Islamic finance innovations enough for investors to escape from a financial downturn? Further evidence from portfolio simulations. *Applied Economics*, 45(24), from 3412-3420. doi:10.1080/00036846.2012.707776.
- [5]. Beck, T., Demirgüç-Kunt, A., & Merrouche, O. (2013). Islamic vs. conventional banking: Business model, efficiency and stability. *Journal of Banking & Finance*, 37(2), 433-447. doi: 10.1016/j.jbankfin.2012.09.016.
- [6]. Bryman, A. (2012). *Social Research Methods*. 4th Edition (4 ed. Vol. 4). Oxford: Oxford University Press.
- [7]. Cader, S. A. (2007). The glass has yet to become full, *Islamic Finance News*, 4(20), 18 May, 18-9.
- [8]. Chong, B. S., & Liu, M.H. (2009). Islamic banking: Interest-free or interest-based? *Pacific-Basin Finance Journal*. 17(1), 125-144.
- [9]. Dees, J. (2007). Taking Social Entrepreneurship Seriously. *Transaction Society*, 44(3), 1-8.
- [10]. Denzin, N. K., & Lincoln, Y. S. (2011). *The SAGE Handbook of Qualitative Research*. (Vol. 4). London: SAGE Publications Ltd.
- [11]. Fang, E. S. (2014). Islamic finance in global markets: Materialism, ideas and the construction of financial knowledge. *Review of International Political Economy*, 21(6), 1170-1202.
- [12]. Fasih, F. (2012). Inclusive growth in India through Islamic banking. *Procedia - Social and Behavioral Sciences*. 37, 97-110. Retrieved April 27, 2021, <http://dx.doi.org/10.1016/j.sbspro.2012.03.278>.
- [13]. Fang, S., & Foucart, R. (2013). Western Financial Agents and Islamic Ethics. *Journal of Business Ethics*, 123(3). Retrieved from 475-491. doi:10.1007/s10551-013-1850-8.
- [14]. Fang, E. S. (2014). Islamic finance in global markets: Materialism, ideas and the construction of financial knowledge. *Review of International Political Economy*, 21(6), 1170-1202. From doi:10.1080/09692290.2013.858229.
- [15]. Gheeraert, L. (2014). Does Islamic finance spur banking sector development? *Journal of Economic Behavior & Organization*, 103, 4-20.
- [16]. Huda, A. N. (2012). The development of Islamic financing scheme for SMEs in a developing country: The Indonesian case. *Procedia - Social and Behavioral Sciences*, 52, 179- 186. <http://dx.doi.org/10.1016/j.sbspro.2012.09.454>
- [17]. Haniffa, R., & Hudaib, M. (2007). Exploring the Ethical Identity of Islamic Banks via Communication in Annual Reports. *Journal of Business Ethics*. 76(1), 97-116.
- [18]. Jaffer, S. (2006). "Takaful in Saudi Arabia", *Islamic Finance News*, Vol. 3 No. 25, 28 July, 16.
- [19]. Jawadi, F., Jawadi, N., & Louhichi, W. (2014). Conventional and Islamic stock price performance: An empirical investigation. *International Economics*, 137, 73-87. Retrieved from doi: 10.1016/j.inteco.2013.11.002.
- [20]. Khan, F. (2010). How 'Islamic' is Islamic Banking? *Journal of Economic Behavior & Organization*, 76(3), 805-820.
- [21]. Khan, M. M., & Bhatti, M. I. (2008). Islamic banking and finance: on its way to globalization, *Managerial Finance*, 34(10), 708-725.

- [22]. Mallin, C., Farag, H., & Ow-Yong, K. (2014). Corporate social responsibility and financial performance in Islamic banks. *Journal of Economic Behavior & Organization*.103, 21-38.
- [23]. Mohamad, S. (2014). Is Islamic Finance, Social Finance? *Journal of Emerging Economies and Islamic Research*, 2(2).
- [24]. Parboteeah, K. P., Hoegl, M., & Cullen, J. B. (2007). Ethics and Religion: An Empirical Test of a Multidimensional Model. *Journal of Business Ethics*. 80(2), 387-398. From doi:10.1007/s10551-007-9439-8.
- [25]. Richardson, B. J. (2008). Keeping Ethical Investment Ethical: Regulatory Issues for Investing for Sustainability. *Journal of Business Ethics*. 87(4), 555-572. From doi:10.1007/s10551-008-9958-y.
- [26]. Siddiqi, M. N. (2000). *Evolution of Islamic banking and insurance as system rooted in ethics''*, Proceedings of the Takaful Forum (April), New York, NY.
- [27]. Siddiqui, A. (2008). Financial contracts, risk and performance of Islamic banking. *Managerial Finance*. Retrieved from 680-694. doi:10.1108/03074350810891001.
- [28]. Uppal, J., & Mangla, I. (2014). Islamic Banking and Finance Revisited after Forty Years: Some Global Challenges. *Journal of Finance Issues*, 13(1).16-27.
- [29]. Warde, I. (2000). *Islamic finance in the global economy*. Edinburgh University Press.

Dr. Shakeelul Rehman, et. al. "A Brief Review of Growth and Development in Islamic Banking." *IOSR Journal of Economics and Finance (IOSR-JEF)*, 12(3), 2021, pp. 15-25.