CHAPTER ONE

ISLAMIC FINANCE DEVELOPMENT AND GROWTH

Just recently, Islamic finance was still regarded as an infant industry striving to prove its viability and competitiveness in the global financial environment. The growth of Islamic finance was largely organic and concentrated in countries where the Muslim population was significant. In addition, in the absence of any real infrastructure, Islamic finance was also mostly governed by conventional regulatory and accounting standards.

However, the industry has witnessed, in last decade, a rapid period of growth, evolution and expansion. It is now being recognised as a viable and competitive form of financial intermediation not only in Muslim countries but also outside the Muslim world, offering a wide range of financial products and services.¹

For both religious and financial reasons, Islamic banking and finance continues to be an area with great potential. This is likely to continue especially if we consider the abundance of liquidity in the Gulf Cooperation Council (GCC) region with the current oil boom and the fact that GCC member governments, for instance, have invested almost $1 trillion abroad while individuals from those countries hold another $500 billion in overseas portfolio. According to World Bank analysts, 90% of those monies have flowed to the US and the European Union and are invested in conventional western-style investment vehicles. If Islamic principles governed as little as 5% of those funds, it could revolutionise western financial markets.²

From a customer’s perspective and apart from the religious obligations which seem to be the main driver for Islamic finance amongst the Muslim population the principles and practice of Islamic finance are also very popular with non-Muslim investors. This is being witnessed

² Josh Martin, “Islamic banking goes global:”, The Middle East, No. 357, June 2005, pp. 50–52.
in a number of countries such as Malaysia where many of the depositors are non-Muslim. In addition, Investors buying sukūk, for instance, have been overwhelming non-Muslim customers and Islamic financial vehicles are attractive to clients of all faiths. It has been reported that 63% of HSBC’s total Amanah customers in Malaysia, for example, are non-Muslim. Investment in sukūk comes from around the globe. For instance, 66% of DIFC sukūk investment is from Europe and Asia, as is 92% in one of Kazanah’s Šukūk, all of which confirm the fact that the potential growth of Islamic finance has no boundaries due to culture, religion or geographical dimensions.

The above fact is well articulated by Eddie Yue, Deputy Chief Executive of the Hong Kong Monetary Authority and Executive Board Chairman of the Treasury Markets Association when he pointed out that “It is a fact that Hong Kong’s Islamic community is not big, but we are confident that the development of Shari’ah-compliant financial markets can take off even in environments in which the domestic Islamic community is relatively small, simply for the fact that investors nowadays are looking beyond domestic boundaries and traditional finances.”

It is clear that there is no cultural boundary to Islamic finance and as it is rightly observed “today, Islamic finance has gained widespread recognition, not just among investors of the Muslim faith, but also among other investors who see Islamic finance as a new investment alternative. Islamic finance is therefore no longer characterised by its uniqueness, but rather seen as an integral part of the international financial system.”

The principles of Islamic finance already have many adherents in the Gulf countries where it is estimated that up to 50% of the consumer population favour Islamic finance. While Islamic banks in the region

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4 Eddie Yue, Deputy Chief Executive of the Hong Kong Monetary Authority and Executive Board Chairman of the Treasury Markets Association, “: Hong Kong’s possible role in Islamic finance at the Hong Kong Showcase on Islamic Finance, Dubai and Amman, 11–12 May 2008, Bank of International Settlements Review, (BIS Review) 59/2008, pp. 1–4.

5 Eddie Yue, “Hong Kong’s possible role in Islamic finance”, pp. 1–4.