

AN INTRODUCTORY STUDY OF ISLAMIC BANKING SECTOR IN WORLD WIDE

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Introduction

The growth of Islamic banking has been increasing ever since, not only in terms of number of countries it is operating in but also in terms of areas of finance it has ventured in (El Gamal, 2006). Islamic Banking is getting more popular as a miracle among experts by surprising them. These are banking institutions operating based on the Islamic Law (Sharia). Today all over the world, most of the banks in several countries are changing their banking trend to Islamic Banking way. Because of the speed of Islamic Banking idea spreading in the banking industry and the rate which they have progressed make it worth to study it systematically. Islamic banking is getting popularity, warm welcome, and appreciation also by non-Muslims in Muslim and non-Muslim countries. Although, most of the Islamic banks are within Middle Eastern and/or Emerging countries, many universal banks in developed countries have started to spigot huge demand of Islamic financial products. This also confirms that Islamic banking is as viable and efficient as the conventional banking is (Yudistira, 2003). 7KH EDVLF IHDWXUH RI ,VODPLF EDQNV LV ³QR LQWHUHVW free policy. It is not like conventional banking system. Islamic banks operate based on the profit and loss sharing agreements (PLS), while conventional banks operate based on interest income. Since its inception in the mid-1970s, Islamic banking has emerged from being a position offering to become part of the mainstream financial services landscape. Although there are few official statistics on the size of the market and estimates vary widely, the total volume of Islamic assets is believed to be about US\$500 billion. The first full-fledged Islamic bank in the world is Dubai ,VODPLF%DQN%6LQFHWKDWEDQN%IRUPDWLRQLQ%WKH number of institutions operating in line with sharia has mushroomed. Today there are more than 500 Islamic financial services institutions worldwide. In just the past two to three years, more than 50 Islamic financial services institutions have been launched. In particular, the Middle East has witnessed an explosion in the number of these institutions, both banks and nonbanks. For example, Boubayan Bank in Kuwait, Bank Al Bilad in Saudi Arabia, and, more recently, Noor Islamic Bank and Al Hilal Bank were formed in the United Arab Emirates, while Bank Al Inma is nearing operational launch in Saudi Arabia. The total capital of these banks alone is in the region of \$15 billion. The commercial purpose is same to Islamic banking as well as to conventional banking but it needs to operate within the principles. According to the rules of Sharia, Islamic finance products are often based on the principles of risk-sharing and profit-sharing. Common concepts used in Islamic Banks are profit sharing (Mudharabah), safekeeping (Wadiah), joint venture (Musharakah), cost plus (Murabahah) and leasing (Ijarah). Such sharing principles can provide acceptable financial returns to investors by providing potential profit in proportion to the risk assumed. This type of structured products can satisfy the demands of investors in the contemporary environment within the guidelines of the Islamic Law. The most active financing provided are in the areas of trade, commodity finance, property and leasing. Method Growing