JGPG (2015) 4: 171-183
DOI 10.14666/2194-7759-4-1-010
PAPER

Principles and History of Islamic Finance

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Abstract This article will give an overview of the fundamental principles of Islamic finance and wants to remember the history of Islamic financial system. To understand the current dynamics it is very important to know which Islamic countries have introduced an economic system based on Islamic law and which have introduced a dual system. It is also important to know where the first Islamic bank was born to understand the evolution of the spread of the Islamic banking system.

Keywords Zakat – Riba - Gharar - Maysir – Interest - Fatwa - Islamisa tion Bank

JEL Classification G20

Introduction

The model of Islamic finance is rooted in religious sources such as the Qur'an and the Sunna. The Holy Qur'an documents the word of God's which was revealed to Prophet Mohammed between 610 and 632 AD. The holy book covers all aspects of believer's life including his economic life and, as such, outlines the first rules regarding economic relations between believers and establishes the basics of the economic system.

The main elements of the Islamic economic and financial system are:

- Charity - *Zakat*
- Prohibition of interest - *Riba*
- Prohibition of economic uncertainty - *Gharar*
- Prohibition of speculation – *Maysir*

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Islam does not want to block or restrict the economic system but rather limit the dangers that can arise from it. The Islamic economic system aspires to reach development based on the real economy. For this reason, although money does have an important role, it is simply a tool through which payment can be made for the work done by people with the prohibition of capital accumulation. In Islam, money represents purchasing power, which is considered to be the only proper use of money. This purchasing power cannot be used to attain more purchasing power without undergoing the intermediate step of it being used for the purchase of goods and services.

The word *zakat* literally means "purification" or "growth" and corresponds to the payment of surplus wealth and profits produced by the believer in one year (R. Hamaui – M. Mauri 2009). In modern terms, it is a real asset tax on incomes and properties owned. This tax is necessary to fight poverty and support a community's growth. In the Islamic world, the person has the ownership of the properties as God's trustee in order to use them for the wealth of society and this brings us back to the concept of social responsibility. Other *zakat*'s purpose is to discourage the capital accumulation through a withdrawal of 2.5 per cent (F. Miglietta – A. Dell'Atti, 2009) and finally represents a good means of wealth redistribution. Other financial instrument prohibited by the Islamic law is the interest or *riba*. The Islamic jurists associate *riba* with the concept of unjust enrichment because it represents a form of gain that is not produced by human labor (C. Scattone 2010). A second definition of *riba* was given in 1980 during the Pakistan Council of Islamic Ideology for the elimination of the interest rate from the Pakistani economy.

The term *riba* includes the interest rate in all its manifestations, without distinction. In the Qur'an the prohibition of the interest is present in the second Sura, which shows that Islam gives a lot of freedom to believers to practice business but it indicates the boundaries that Muslims have to respect. Islamic scholars have identified two types of *riba* (R. Hamaui – M. Mauri 2009):

1) *Riba al-nasi'ah:* the interest rate is tied to the time that it takes to repay the debt.

2) *Riba al-fadl:* indicates the presence of the interest in the exchange of goods. This comes from a *hadith* where the Prophet Muhammad said that the transaction of sale is permitted only if it has as its object the exchange of: "Gold for gold, silver for silver, wheat for wheat, barley for barley dates for dates and salt for salt, like for like, equal for equal, hand to hand. If these types (*asnaf*) differ, then sell as you wish, if it is hand to hand" (Frank E. Vogel 2006).

The prohibition of interest has deep roots in the Islamic conception dating back to the pre-Islamic period. During this period, known as *jahiliyya or* illiteracy, when people granted loans if the debt could not be repaid this was doubled.

According to modern Islamic thought, *riba* consists on a guaranteed interest rate and established before the economic result of the business financed. The problem is the split of the payment of the debt from the economic result. In the contemporary era, the interest rate is at the base of the world economy and it ensures gains for the credit institutions and in the West we could say that a system without interest could block the whole system. Even in the Islamic world a debate has begun on this topic, and Muslim scholars have tried to find a way to legitimise interest rates. In 1904, the Egyptian Mufti Muhammad ʻAbduh affirmed the legality of the interest paid on the deposits with Egyptian post office's saving fund by defining interest as "lawful dividends resulting from a participation in the profits of a legal business".

His assertion is based on the idea that the money deposited would be used in legal activities and would have complied with the obligations arising from the principle of profits and losses sharing, and the State would act in a manner beneficial both to the depositor and to the community (C. Tripp 2006). In 1989, a *fatwa* of Egyptian Mufti Muhammad Sayyid Tantawi, head of the Al-Azhar University, justified and considered legitimate interest paid by the State on government securities because the funds were used for social purposes ensuring a public utility (F. Miglietta – A. Dell'Atti 2009).

Other two concepts prohibited by Islamic morality are: *gharar* and *maysir. Gharar* means uncertainty and risk, *maysir* means speculation (R. Hamaui - M. Mauri 2009). This prohibition was used to limit gambling and the creation of sales contracts that did not refer to the goods immediately traded. Today, the prohibition of *gharar* and *maysir* has significant use within the Islamic insurance contracts because, to be lawful, they have to provide mutual assistance and not prevent the hypothetical changes, because they are uncertain for man but not for God.

History of the Islamic Model: Egypt, Pakistan, Saudi Arabia, Iran, Malaysia

The contemporary history of the Arab and Muslim countries can be enclosed in two separate phases of European Imperialism in the Middle East, North Africa and Asia during the 19th and 20th centuries.

The first phase is represented by the invading power, which imposes to the local world, western social and economic traditions. The next stage is the decolonisation. Western states left nations based on the western model, linked to global economic system that reflected the values and interests of the colonial states.Between these two phases in the Islamic world a careful consideration about an economic morale was born that considered the financial transactions among men as a fundamental part of God's plan; in order to avoid social divisions and ensure stability for the Muslim community, looking for alternative ways of development imposed from outside. In these areas the responses of local rulers were very different, such as the refusal of the systems imported during the colonial period or a gradual introduction of alternative models inspired by the fundamental principles of the Islamic religion. In this reflection, Islam represents a third way, replacing capitalism and socialism as an engine for growth and development. In fact, Islam does not provide any explicit plan for the economy, but it is possible to rethink the economic system in the light of religious education to create an authentic Islamic brand.

As argued by Muhammad Baqer al-Sadr (1935-1980) Islamic economics is not a science but a doctrine, because it does not explain the reason for the occurrence of certain economic events, but gives direction, based on the concepts of social justice, solidarity, sharing the profits and losses on the job (I. Warde 2010). The birth and development of the Islamic banking and financial system took place during the years of decolonisation and can be summarised into two main phases. The first coincides with the end of the Second World War and the beginning of the decolonisation, with the independence of Islamic countries that led to the realisation of the failure of the capitalist and the communist system regarding the political, economic and social needs of the Islamic world. The second phase begins with the Arab-Israeli War of 1973, followed by two major oil shocks of 1973 and 1979, generating huge surpluses of dollars especially for the benefit of the Gulf countries, and finally by the Iranian Revolution of 1979.

The modern idea of Islamic finance was born in India in 1940, thanks to the creator of the *Jamaat-i Islami*, Abul-'Ala Mawdudi, who popularised the term "Islamic Economics", arguing that the economy and finance are a fundamental part of the Islamic world and constitute an alternative model (I. Warde 2010).

Egypt

The birth of the Islamic bank and the financial system dates back to 1963 with the creation of the Local Mith Ghamr Saving Banks, based in Egypt, in Mith Ghamr, rural town in the Nile Delta. This bank was founded by the Egyptian Ahmad Al Najjar, who studied in Germany and tried to apply in Egypt the German model of Agricultural Savings Banks, which contributed to Germany's reconstruction after the Second World War (R. Hamaui – M. Mauri 2009).

For five years, the bank became the seat of a series of businesses, each of which was in accordance with Islamic principles in financial matters: deposit accounts that did not pay interest, interest-free loans, collection of *zakat* and social accounts and so on. This experiment lasted until 1971, when the Nasser Social Bank was created, which resumed the spirit of Mith Ghamr Local Saving Banks. The process of Islamic banks' development in Egypt continued with the creation of the Faisal Islamic Bank of Egypt (FIBE) by the special Act n. 48 of 1977 (R. Wilson 1960) and in 1980 the Islamic International Bank for Investment and Development (IBID) was established, through a ministerial decree in accordance with the law n. 43 of 1974 (R. Wilson 1960). The IBID offered services like any other lending institution, like savings accounts and investment accounts and also it financed agricultural, commercial and industrial projects, working through the Islamic principles of profits and losses sharing and the prohibition of interest. Even during the Hosni Mubarak's regime the development of Islamic banks did not stop. In 1981, one of the Egyptian state-owned banks, Bank Misr, publicized the opening of a chain of branches all over Egypt, which would offered Islamic services according to the Holy Qur'an. Soon in Egypt appeared a plurality of conventional institutions that opened Islamic windows, many of which were part of the American and European finance, like Citibank, Union des Banques Suisses, HSBC and Deutsche Bank, succeeding in their advertising operation to ensure the separation between the Islamic section from the conventional.

Pakistan

In Pakistan, the process of Islamisation took place gradually after 1977, by the coup of General Zia ul-Haq. He announced that he wanted to Islamise the Pakistani economy because Pakistan, which means "land of the pure", was created in the name of Islam and will continue to live only by applying Islamic law (I. Warde 2010).

The plan proposed by the new dictator would be implemented in two phases. The first phase (1979 - 1984) would have introduced the payment of *zakat*, with a withdrawal of 2.5 per cent on saving accounts, new financial tools were introduced, government and corporate bonds, life insurance in accordance with the Shari'ah. The second phase (from 1984) involved the area of loans and investments in cash, with the elimination of *riba* from the national system. In fact, a legal gap remained that allowed the foreign currency deposits, loans granted to foreigners and the Pakistani public debt to operate on the basis of interest rates, creating, in effect, a parallel system (R. Wilson 1960). In September 1977 the Council Islamic Ideology (CII) was established, with the task of eliminating the interest from the whole economic system. Given the title of "Constitutional Advisory Body" by the Government, the CII was the first board to receive the authorisation to reform the financial system (R. Wilson 1960). Moreover, a panel of experts was created with the task of supporting the work of the CII which developed a report, "Report on the Elimination of Interest from the Economy". The Panel started to work in July 1979 when the three largest

Pakistani financial groups, the House Building Finance Corporation (HBFC), the Investment Corporation of Pakistan (ICP) and the National Investment Trust (NIT), were forced to convert their business, moving from a system based on interest to one completely conform to the dictates of Shari'ah (R. Wilson 1960). On June 1, 1980, the first changes to the banking system came into force, bringing the main measures of Islamisation. For four years there was the possibility to choose between a system based on the interest rate and a system based on Islamic law, but by July 1985, the whole system was declared fully Islamised.

This was true only for the population, while the state debt, loans to foreigners and foreign currency accounts were excluded, which continued to operate according to the conventional system. In January 1998, however, the Government decided to completely eliminate interest rates from the country's economic system. This decision was taken when the banking system was in serious difficulties because only 30 per cent of institutions continued to make profits. The banks decided to adapt, using 90 per cent Not Profit & Loss Sharing contracts (Not-PLS), which guaranteed more earnings than Profit & Loss Sharing contracts (PLS). The Pakistani Islamic banking industry today is growing thanks to the entry of new banks coming from the Gulf and between 2003 and 2004, the financial institutions that offer Islamic services has risen from 17 to 4738. Finally, since 2005 Kuwait decided to invest in Pakistan creating commercial banks as the Pak-Kuwait Group and Pak-Kuwait Takaful Insurance Group Co.Ltd. Since 2008, the Dubai Islamic Bank has been authorized to open fifty branches by 2011 (I.Warde 2010).

Saudi Arabia

The Arab-Israeli Wars and the oil shocks of 1973 and 1979 have given the possibility to Saudi Arabia to become the leader in the Middle East which gave a boost to the development of Islamic banking and financial system. Saudi Arabia was initially allied with the Egyptian President Nasser, supporting the policies of nationalization. Following to the French, English and Israeli military operation in Sinai during the "Suez Crisis", in order to prevent the nationalization of the Canal and the consequent approach of Nasser to the USSR, the Saudi King Sa'ud was induced to join the "Eisenhower Doctrine" (D. Atzori 2010), according to which the United States would guaranteed the safety and protection of Middle Eastern States from a possible Soviet interference.

The Nasser's persecution against the Muslim Brotherhood, in the course of 1960, many of them were forced to escape in Saudi Arabia, where they had the opportunity to spread their Islamic ideas especially among workers employed in the oil wells. These new extremist ideas penetrated inside the Saudi government and institutions and on March 28th, 1964, King Saud was forced to abdicate by his brother Faisal (D. Atzori 2010). The Nasser's defeat in 1967, during the war against Israel, known as "Six Days War", the Saudi establishment decided to take the leadership of the Islamic countries. In 1969 Saudi Arabia promoted the establishment of the Organization of the Islamic Conference (OIC), which brought together all the heads of State of the Islamic countries, establishing it in Jeddah. In addition the power of the Saudi Kingdom was further strengthened by the enormous revenues generated by increases in oil prices following the crisis of 1973. Faisal decided to invest these huge resources in the modernization of the country and also internationally. The tools that could be used were already ready; it was the Muslim World League and the OIC: both were used to promote the popularity of the Saudi Royal House and increase the cooperation between the Islamic countries, especially in the economic field.

After Nasser's death in 1970 and the seizure of power by Anwar al-Sadat, Saudi Arabia and Egypt knew a rapprochement. In 1972, a congress was held in Cairo between the various Arab heads of State which unanimously affirmed the application of Islamic law even in financial transactions. The goal was to raise the quality of life in the Islamic world by creating an international Islamic bank that would work for the development of the Muslim poor States (D. Atzori 2010). The new banking and financial systems received a boost in recent years thanks to the work of Faysal and his son Muhammad Al Faisal Al Sa'ud. In 1975, for will of finance ministers of some Arab states, during OCI section, the Islamic Development Bank (IDB) was established, with the intention of creating an institution to direct the funds towards the development of poor Islamic areas by providing interest-free loans and comply with the essential principles of Islamic economy. Another aim was to strengthen the training and expertise in financial matters and, more importantly, show to the world that there was an alternative to conventional capitalist system to support and finance economic growth. The IDB could rely on the immense economic power that came from the oil's sale and directing the proceeds to the less developed Muslim nations to strengthen social cohesion among Islamic states (D. Atzori 2010).

The authorized capital of the IDB amounted about 2 billion dinars. The greatest influx of money came from Saudi Arabia, which contributed by 200 million dinars, while Kuwait, Libya, United Arab Emirates by 100 million dinars each. For the poorest Muslim countries, such as Afghanistan, Mali, Mauritania, Niger, was asked a share of 2.5 million dinars (R. Wilson 1960).

Iraq and Iran didn't participate in the Conference and didn't support the creation of the Bank for purely political reasons because in the same year the Agreement of Algiers was signed to conclude the disputes that occurred along the border of the Shatt al-'Arab.

In 1977 the International Association of Islamic Banks (IAIB) was created, chaired by Prince Muhammad as an institution of coordination and advice for the new Islamic banks, which still play a major role in the dissemination of economic and social principles of Islam.

The role of IAIB was to preserve and extend the spiritual and economic aspects of the community, to guarantee this aim the community was protected from economic marginalization, impoverishment, corruption and secularism. These ambitious ideals were believed to be achievable through various contractual instruments that banks possess to guarantee respect of Islamic economy.

Since 1980, important research centers about Islamic finance and economy were set up, including the Saleh Kamel Center for Islamic and Commercial Research, founded in 1979 from Sheikh Saleh Kamel, Professor at University of Al-Azhar. In 1981 the Prince Muhammad started the biggest project realized until then, founding the bank *Dar al-Mal al-Islami*, with an initial capital of $1 billion dollars.

The evolution of Islamic finance in Saudi Arabia was not without obstacles. The close alliance with the United States led to protests by religious extremists. Following the last oil shock of 1979, the Saudi government authorized to operate on its territory even conventional banks, prohibiting the use of their religious connotations for Islamic banks. Currently, in addition to *Dar al-Mal al-Islami* and the *Dallah Al Baraka*, in Arabia the only commercial Islamic bank that can operate on the territory is the Al Rajhi Banking and Investment Company (R. Wilson 1960).

Iran

Another Muslim country, but not Arab, which adopted a system based on the Shari'ah principles was Iran, which, following the Revolution of 1979, the seizure of power by the Ayatollah Khomeini and the birth of the Islamic Republic, nationalized and converted to Islam the whole banking sector.

In the early years of the revolutionary government of Ayatollah, his policy was focused on three main elements:

- the desire to achieve economic and financial independence, breaking with the Shah Mohammad Reza Pahlavs policies of centralizing and pro-Western;
- to end the ideological struggle that was dividing the Persian elite;
- to consolidate the revolution according to the principles of Islam.

In March 1979 a new Constitution was approved by referendum, which provided at the article 77 that all international treaties, conventions, contracts, agreements, were approved by Parliament, and at the article 81 prohibited the benefit on concessions to foreigners for the creation of new companies, organizations operating in the commercial, industrial, agricultural, service sector and in oil extraction (I. Warde 2010).

In 1984 the «Law for usury-free banking operation» was enacted and eliminated the interest rate from the whole banking sector. Since interest rates were eliminated, the banks decided to adapt the Not Profit & Loss Sharing contracts, which guaranteed more profit in banking transactions. However, even in Iran interest rates have not been completely eliminated because it was used for foreign transactions. Only in 1985 the new financial system began to operate thanks to the education of approximately 20,000 employees on the Islamic banking and to the recovery of the economy due to the revival of oil exports to the allies. Since 1989, with the death of Ayatollah Khomeini, Iranian policy changed. The new ruling class decided to put an end to the Iran's isolation intensifying oil exports and investing the funds in the modernization of the country. In addition to this, loans and foreign investments were needed, reinterpreting the article 81 of the Constitution of 1979 affirming that the international contracts were no longer considered like that if one party was a Ministry or a Government agency, subject to the article 77 of the Constitution (I. Warde 2010). This allowed the opening to new foreign partners especially to the young Islamic Republics born from the USSR's dissolution in 1990 - 1991 and from the Gulf countries.

Since 1990, the Iranian government is committed to develop Islamic banking sector, receiving funds from other countries until the attacks on September 11th, 2001, when Iran became part of the black list drawn up by the United States and the United Nations. In March 2008, the UN Security Council passed the Resolution no. 1803 which stated that the States members had to supervise the activities of financial institutions in their territories and on all banks domiciled in Iran. In addition, the resolution specifically mentioned two Iranian banks such as *Bank Melli* and *Bank Sedarat*. Since 2007, these two banks along with *Bank Sepah* were hit by United States' sanctions for anti-proliferation and anti-terrorism reasons, in order to stop the funding of projects for the growth of nuclear power stations. The government of President Mahmoud Ahmadinejad has confirmed the official support the Islamic banking system, because Iran could become in the future an alternative model and guide in the Middle East region.

Malaysia

The Islamic finance cannot be placed only in the Middle East, but its spread includes also South East Asia. In 1963, in Malaysia *Tabung Hajj* was created, initially known as Muslim Pilgrims Management and Fund Board (PMFB), and this bank was the first Malaysian Islamic institution. PMFB was born with the aim to collect and manage the savings of those who wanted to make the pilgrimage to Mecca and had considerable success: the resources amounted to 12.9 million Ringgit and in 1982 reached 338.7 million, while depositors grew from 47.970 to 535.900 (D. Atzori 2010).

The Malaysian Islamic banking system was also developed for socio-political reasons. Malaysia was ruled by the Chinese minority who controlled the whole country, although the majority of the population, Malay, was Muslim. The political opposition was led by young Muslims inspired by the theories of the intellectual Indo-Pakistani Mawdudi, demanding more power and especially the State's islamisation. The Malaysian government didn't ban the Islamic associations, although didn't accept their entry into politics. Since 1970 the main force of Government was the United National Organization (UNO), which promoted the Islamisation and at the same time supported the secular institutions. The process of Islamisation accelerated until 1980 by the Prime Minister Mahath Muhammad, who led the country towards a fast economic development (D. Atzori 2010). In these years workshops and study committees were established to analyse the examples of Islamic banking in the other countries. The main problem was the Law of 1973, which regulated the banking sector allowing the use of the interest rate. A committee was invited to study and reform the law in order to promote the spread of Islamic banks. In 1982 a bill was presented and passed with the name of "Islamic Bank Act," which entered into force on April 7th, 1983, and in 1984 was enacted the new Islamic insurance law, the Takaful Act (D. Atzori 2010).

By the Islamic Bank Act the Bank Islam Malaysia Berhad (BIMB) was created and the initial capital provided came from *Tabung Hajj* and Malaysian government, the major shareholder (D. Atzori 2010). At the same time the Central Bank of Malaysia created a Religious Supervision Committee, composed of members from the Scholar's Association of Islamic Religion. Even the Malaysian social structure was changing because the Malay middle class, predominantly Muslim, began to have greater economic power, following the development of the economy. Banking institutions and research centers on Islamic finance were created, giving employment to many young graduates and in 1983 the important International Islamic University in Kuala Lumpur was founded. The launch of the Islamic interbank money market in 1994 and the liberalization of the Islamic financial industry allowed more foreign participation and the growth of the whole system. Malaysia, through strict observance of Islamic precepts and efficient economic policies, managed to ensure the development of the economy until 1997, when it was involved in the Asian crisis. The government decided not to adopt the prescription of the International Monetary Fund, adopting measures to fight poverty, boosting enterprises' privatization and the industrial development, all focused on the possibility of using the funds of the Islamic population.

The Malaysian politics had a great success also thanks to the events of September 11th, 2001, that urged the population to invest in domestic Islamic banks as a consequence of the freeze of Muslim funds. In 2005 the first foreign Islamic bank from the Middle East entered into Malaysian market and in 2008 the country's first Islamic banking subsidiary of a locally incorporated foreign bank was established. The issuance of licenses to foreign Islamic financial institutions promoted healthy competition and added to the dynamism of the Islamic financial industry. Furthermore, Malaysia hosts the Islamic Financial Services Board (IFSB). This international prudential standard - setting organisation promotes soundness and stability of the Islamic financial industry by issuing global prudential standards and guiding principles. Its international membership base includes regulatory and supervisory authorities, intergovernmental organisations and financial market players. The constant development of the Islamic financial system helped to transform Kuala Lumpur into a big financial center, making Malaysia a competitor of Saudi Arabia (D. Atzori 2010). The intelligent strategy implemented by the Central Bank of Malaysia spread Islamic Banking without creating the break that had occurred in other countries, creating confusion and disorientation in an industry that was unprepared for the change. Malaysia continues to contribute to the strengthening and soundness of global Islamic finance. Recent initiatives include participating in a Task Force on Liquidity Management and a Task Force on Islamic Finance and Global Financial Stability. Both these task forces were established by the IFSB and the Islamic Development Bank (IDB). The outcome of these task forces led to the establishment of the International Islamic Liquidity Management Corporation (IILM) to facilitate global cross - border liquidity management.

Current Situation

Since 1980 many things are changed starting with the banking deregulation launched by the American President Reagan and in the Arab world the International Association of Islamic Banks (IAIB) lost its monopoly on the control of Islamic finance. New financial centers began to compete against Saudi Arabia, such as Malaysia which created economic institutions to direct the new "financial policy" of the Islamic world (I. Warde 2010).

The spreading of the Islamic model has suffered several setbacks in the Middle East by the reduction oil exports during 1990, decrease of foreign trade, political instability in the Middle East, the excessive increase in spending for armaments and the Asian financial crisis. There has been an economic upturn with the attacks of September 11th, 2001, when many Islamic investors have preferred to repatriate their capital because United States and United Nations have imposed the block of funds that were coming from Islamic countries because they were considered possible sources of financing of terrorists or any other terrorist groups that were threatening the West. On September 12th and 28th, 2001, the Security Council of the United Nations has approved the Resolutions n. 1368 and 1373, declaring that all the member States had to bring to justice the perpetrators, organizers and sponsors of the attacks, prevent and suppress the financing of terroristic acts, criminalize the provision and collection of funds and freeze the funds and other assets related to the execution of terroristic acts.

On the Islamic side, in response to the new wave of development, since 2002 institutions were created such as the Islamic Finance Services Board (IFSB), the International Islamic Financial Market (IIFM) and the Liquidity Management Center (LMC). To guarantee transparency and development for Islamic banks the Islamic Rating Agency and the Islamic International Rating Agency (IIRA) were created, based in Bahrain, supported by Saudi Arabia and Bahrain, to evaluate the accounts and the products marketed by the Islamic financial institutions, standards and guidelines issued by the institutions of regulation (L. Siagh 2008). Since 2005 the International Islamic Center for Reconciliation and Commercial Arbitration for Islamic Finance Industry was created in Dubai, regulating the financial and commercial disputes and since 2005 Malaysia has authorized to operate on its territory and its markets the Islamic banks from the Gulf countries (I. Warde 2010).
In the new millennium the Islamic finance manages assets with estimated value of 500 billion U.S. dollars, with average growth rates of 10-15 per cent a year. Thanks also to the action of many international institutions such as the International Monetary Fund (IMF), the World Bank (WB) and the World Trade Organization (WTO), which promote the free movement of capitals, the Islamic model was exported to the West, from the United States to England, France and Germany. At the base of this spread are both the intensification of migration flows to Western countries and the need to reinvest the proceeds of oil exports. Simultaneously to the developments of the Islamic Banking, the investments in Islamic insurance sector, Takaful in Arabic, and the issues of bonds through Islamic bonds, Sukuk in Arabic, are increased. In Western countries, where Muslim communities are significant, Shari'ah compliant products are traded by conventional financial institutions such as Citigroup, HSBC, Deutsche Bank, UBS, ABN Ambro, and BNP Paribas.

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