World Islamic Banking: Growth and Challenges Ahead*

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Abstract. The object of the article is to give an overview on Islamic banks growth experience across the world from its initial stages till current situation with issues and challenges ahead. More specifically, the article focuses on Islamic banks in Russia, considering the fact that the country with over 20 million Muslims has only one bank (Badr-Forte) which offers Islamic financial services and a few institutions which provide halal investments in recent years, including Ak-Bars Bank in Tatarstan (non-Islamic Russian bank). But despite signs of growth, the country's pool of officially registered Islamic financial institutions remains limited to two organizations in Tatarstan and two in the republic of Dagestan in the North Caucasus. It is due to the Russian regulation system which is poorly suited for Islamic banks.

Аннотация. В данной статье рассматривается опыт роста исламского банкинга в мире, а также проблемы и барьеры, с которыми он сталкивался. В основном статья сфокусирована на исламском банкинге в России, где мусульманская община насчитывает более 20 миллионов человек и есть только один банк ("Бадр-Форте"), который с недавних пор предоставляет исламские финансовые услуги, а также несколько институтов по поддержке халяльных инвестиций, включая банк "АК Барс" в Татарстане (не исламский банк). Несмотря на рост, исламские институты ограничены только двумя организациями, которые находятся в Татарстане и Дагестане на Северном Кавказе. Это обусловлено плохой системой российского регулирования, в которой исламский банкинг плохо приживается.

Key words: Islamic finance, Islamic bank, QISMUT, growth rate, market share.

1. WHAT IS ISLAMIC BANKING; WHERE DID IT COME FROM AND WHERE IS IT GOING?

The core tenet of Islamic banking is a ban on *riba*, or interest, and loaning money for profit. The ban comes straight from the Prophet Muhammad, and is spelled out in the Qur'an.

On the face of it, such a ban should eliminate any possibility of sharia-compliant banking — but this is not actually the case.

The ban on "riba" prohibits making money from money. So instead, Islamic banks earn profits by co-investing in their clients' goods and businesses.

Islamic banks are also banned from financial speculation of any kind — where, again, money is made from money — as well as from investing in *haram*, or sinful, products, such as alcohol, pork and gambling.

The meticulously worded practices have seen a fair share of criticism from those who say they are just a piously worded cover-up for conventional banking. But in general, true Islamic banking is more client-oriented: banks are supposed to go easy on borrowers in case of emergencies that render clients unable to pay, even up to forgiving their debts.

Moreover, the thrust of Islamic banking is founded on the desire to submit to the Divine Instructions on all transactions, particularly those involving exchange of money for money. However, it would be quite unfair to limit Islamic banking to elimination of *riba* only. *Riba* is but one of the major undesirable elements of an economic transaction, the others being *gharar* (risk or uncertainty) and *qimar* (speculation). While elimination of these objectionable aspects in a transaction is indeed a critical aim of Islamic banking, it is by no means its ultimate objective.

According to some, usury or excessive and exploitative charging of interest; while according to others, interest *per se* — is forbidden by the Qur'an. For example:

"And that which you give in gift (loan) (to others), in order that it may increase (your wealth by expecting to get a better one in return) from other people's property, has no increase with Allâh; but that which you give in

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Zakât (sadaqa — charity etc.) seeking Allâh's Countenance, then those, they shall have manifold increase. Sura Ar-Rum (30:39)."

"That they took riba (usury), though they were forbidden and that they devoured men's substance wrongfully — We have prepared for those among men who reject faith a grievous punishment. Sura An-Nisa (4:161)."

It has been argued in vain for long in some circles that the prohibition in Islam is that of excessive interest only or that it is the interest on consumptive loans that has been forbidden and as such loans extended for commercial purposes are entitled to an excess over the principle amount lent. Such tendentious arguing fails to give due understanding to versus 278 & 279 of Surah Albaqra (quoted below);

"O ye who believe! Be afraid of Allah and give up what remains (due to you) from Riba (usury) (from now onwards) if you are (really) believers. (2:278)."

"And if you do not do it, take notice of war from Allah and His messenger! But if you repent, you shall have your capital sums. (2:279)."

However, this does not mean that Islam prohibits any gain on principle sums. In Islam, profit is the recognized reward for capital. When capital employed in permissible business yields profit that profit (excess over capital) becomes the rightful and just claim of the owner of the capital. As a corollary, the risk of loss also rests exclusively with the capital and no other factor of production is expected to incur it. Another important element of Islamic finance is that profit or reward can only be claimed in the instance where either risk of loss has been assumed or effort has been expended. Profit is therefore received by the provider of capital and wages/remuneration by labor/manager.

A depositor in an Islamic bank can therefore make earnings on his or her deposit in several ways:

- Through return on his capital when that capital is employed in a business venture.
- Through sharing of profit when his capital is part of capital employed in a partnership, and finally,
- Through rental earnings on an asset that has been partially financed by his capital.

As with all things Islamic, the origination of Islamic finance goes back to the time of Prophet Muhammad. The Qur'an and the example of Prophet Muhammad provide direct behavioral guide and represent bedrock of Islamic faith to over one billion Muslims globally. The Prophet Muhammad happened to be a businessman serving as a trader for Khadija. The Prophetic example was the very epitome of fairtrade. Refraining from usury, ensuring transparency in transactions, and total honesty entitled him Al-Amin (The Trustworthy) in pre-Islamic Arabia (Sufyan, 2007).

In Muslim communities, limited banking activity, such as acceptance of deposits, goes back to the time of the Prophet Muhammad. At that time people deposited money with the Prophet Muhammad or with Abu Bakr Sedique, the first Khalif of Islam.

In order to avoid manifestation of Islamic fundamentalism which was anathema to the political regime, the first modern experiment with Islamic banking was undertaken in Egypt under cover without projecting an Islamic image. Ahmad El Najjar made pioneering effort and established a Savings Bank based on profit-sharing in Egyptian town of Mit Ghamr in 1963. There were nine such banks in the country by 1967. These banks, which neither received nor paid any interest, invested mostly by engaging in trade and industry, directly or in partnership with others, and shared the profits with their depositors (Siddiqi, 1988). These banks were functioning essentially as saving-investment institutions rather than as commercial banks. Although its charter made no reference to Islam or Sharia (Islamic law), Nasir Social Bank, established in Egypt in 197l, was declared an interest-free commercial bank (Arif, 1988).

In the seventies, because of changes that took place in the political climate of many Muslim countries, there was no longer any strong need to establish Islamic financial institutions under cover. Both with letter and spirit, a number of Islamic banks were established in the Middle East, e.g. the Dubai Islamic Bank (1975), the Faisal Islamic Bank of Egypt (1977), the Faisal Islamic Bank of Sudan (1977), and the Bahrain Islamic Bank (1979), to mention a few.

A number of banks were also established in the Asia-Pacific region in response to these winds of change, e.g. The Philippine Amanah Bank (PAB) was established in 1973 as a specialized banking institution by Presidential Decree without reference to its Islamic character in the bank's charter. The PAB is not strictly an Islamic bank; nevertheless, efforts are underway to convert the PAB into a full-fledged Islamic bank (Mastura, 1988). Its interest-based operations continue to coexist with the Islamic modes of financing. PAB operates two 'windows' for deposit transactions, i.e., conventional and Islamic (Arif, 1988). Islamic banking was introduced in Malaysia in 1983, but not without antecedents. Muslim Pilgrims Savings Corporation (MPSC) was the first (non-bank) Islamic financial institution in Malaysia set up in 1963 for people to save for performing *hajj* (pilgrimage to Mecca and Medina). MPSC was evolved into the Pilgrims Management and Fund Board in 1969, which is now popularly known as the Tabung Haji. The success of the Tabung Haji also provided the main thrust for establishing Bank Islam Malaysia Berhad (BIMB), which represents a full-fledged Islamic (commercial) bank in Malaysia. Bank Islam Malaysia Berhad (BIMB) was set up in July 1983 with paid-up capital of RM 80million (Arif, 1988 and BIMB).

The Organization of Islamic Countries (OIC) established Islamic Development Bank (IDB) in December 1973 with the purpose to foster economic development and social progress of member countries and Muslim communities individually as well as jointly in accordance with the principles of Sharia i.e., Islamic law. The IDB not only provides fee-based financial services but also provides financial assistance on profit-sharing bases to its member countries (Source: IDB).

Reference should also be made to some Islamic financial institutions established in countries where Muslims are a minority. There was a proliferation of interest-free savings and loan societies in India during the seventies (Siddiqi, 1988). The Islamic Banking System (now called Islamic Finance House), established in Luxembourg in 1978, represents the first attempt at Islamic banking in the Western world. There is also an Islamic Bank International of Denmark, in Copenhagen, and the Islamic Investment Company has been set up in Melbourne, Australia (Arif, 1988). In the late 20th century, a number of Islamic banks were created, to cater to this particular banking market.

From a humble beginning in a small village in Egypt in the late 60s, it has now spread to the four corners of the world. By normal standards in a time span that is less than half a century it could have hardly been expected to establish foothold in Islamic world, let alone make its presence felt in Muslim-minority countries. Yet such has been its phenomenal rate of growth that not only is taking firm roots in its homestead, but is also attracting genuine interest among standard barriers of conventional banking and in swathes of land where Muslims are a small minority only.

1.1 MAIN FEATURES

The salient features of the proposed system are: 1) There is no interest on deposits, but capital is guaranteed; 2) Lending and investing are treated differently; loans are interest-free but carry a service charge, while investing is on a profit- and loss-sharing (*Mudaraba*) basis. Conventional banks will grant loans but they will not engage in investment-financing. Investment-financing will be done through investment banks and investment companies.

1.2 ZERO INTEREST AND CAPITAL GUARANTEE

Muslims are prohibited by their religion to deal in interest (*riba*) in any way. Giving and receiving as well as witnessing are all prohibited. Thus an Islamic banking system as it is mentioned can not pay any interest to its depositors; neither can it demand or receive any interest from the borrowers. Nor could the banks witness or keep accounts of these transactions. But the lender is entitled to the return of his capital in full. This is a Qur'anic injunction[1], and the proposed system complies with these fundamental Islamic requirements.

A basic tenet of commercial banking is capital guarantee. The capital entrusted to the bank by a depositor must be returned to him in full. The proposed system fully complies with this requirement. Islamic banking as practiced today does not provide capital guarantee in all its deposit accounts. In many countries, this is one of the two main objections to permitting the establishment of Islamic banks. There is no objection to paying zero interest on deposits.

Thus, by paying zero interest and guaranteeing capital, the proposed system satisfies both the riba-prohibition rule of Islam and the capital guarantee requirement of conventional banking acts. This enables it to obtain permission to set up and operate as a deposit bank in all countries of the world, while obeying the riba-prohibition rule and qualifying to be an "Islamic" bank (Gafoor, 1995).

1.3 LENDING AND INVESTING

In conventional banking, depositing is a form of investment for the savers where the capital remains intact while a known income (in the form of interest) is promised. To the banks lending is a form of investment where the capital and a known return are assured and the return will also cover all their costs. Since Islam prohibits dealing in interest in any form this type of banking is not acceptable to the Muslims.

In Islam, there is a clear difference between lending and investing. Lending can be done only on the basis of zero interest and capital guarantee, and investing only on the basis of *Mudaraba* (profit- and loss-sharing). Conventional banking does not make this differentiation and does not need to. An Islamic bank has to take this into consideration in devising a system to cater to the Muslims. Therefore such a system has to provide for two sub-systems, one to cater to those who would "lend" and another for those who wish to invest.

In the proposed system, the depositors are considered as lenders to the bank and, since a Muslim lender cannot receive any interest, he lends without interest but with the assurance that his capital will be returned in full. This applies to demand (current account) deposits as well as to savings deposits. The bank, in turn, lends (the depositors' funds) to the borrower who should pay a remuneration (or profit)

[1] Qur'an, 2:279.

to the bank for providing these services. This suits some depositors and some borrowers.

Further in conventional banking those who wish to earn an income using their savings do so by putting their capital in savings deposits or time (fixed) deposits and receive an interest payment. A Muslim cannot earn an income but he participates in a project by financing it and by sharing in its loss or profit (Ghafoor, 1996).

2. ISLAMIC BANKS GROWTH EXPERIENCE AND CHALLENGES

In three decades, Islamic banks have grown in number as well as in size worldwide and are being practiced on even more intensive scale. Some countries like Sudan and Iran, have converted their entire banking system to Islamic banking. In other countries, where conventional banking is still dominating, the Islamic Banking is operating alongside (Agarwal, 2003).

Islamic banks have more than 300 institutions spread over 51 countries, including the United States through companies such as the Michigan-based University Bank, as well as additional 250 mutual funds that comply with Islamic principles. It is estimated that over US$ 822 billion worldwide sharia-compliant assets are managed (*The Economist*, 2012).

Gradual and steady spread of the Islamic banks over time over the world is a lucid manifestation of success and the symbolic growth rate is the hallmark of this emerging market. Being fastest growing segment of the credit market in Muslim countries, market share of Islamic banks in Muslim countries has risen from 2% in the late 1970s to about 15 percent today (Aggarwal and Yousaf, 2000). Islamic banking is getting popularity, warm welcome, and appreciation also by non-Muslims in Muslim and non-Muslim countries. According to Yudistira (2003), 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.

Nowadays, Islamic Banking assets with commercial banks globally are set to cross US$ 1.7 trillion in 2013 suggesting an annual growth of 17.6% over last four years and it is expected that Islamic banking assets with commercial banks would grow at a CAGR (compound annual growth rate) of 19.7% over 2013–18 across the QISMUT (Qatar, Indonesia, Saudi Arabia, Malaysia, UAE and Turkey) countries to reach US$ 1.6t by 2018.

One-fifth of the banking system assets across QISMUT have now transitioned to Islamic. In Saudi Arabia, supply push has seen share of Islamic banking cross 50% of system assets.

The substantial pent-up demand promises a bright future. However, the volatile nature of some of the newly emerging Islamic finance markets implies that growth gets adversely affected by politics and social upheaval.

Although there is a noticeable slowdown caused by two major developments. First, the continuing economic and political setbacks in some of the frontier Islamic finance markets; and second, the large scale operational transformation that many of the leading Islamic banks initiated about 18 months ago, which continues to consume focus and investment. (world Islamic banking report, 2014).

A major challenge for Islamic banks is to adjust the propositions, operating models, systems, tools and processes to understand and fully capitalize on the international opportunities provided.

According to World Islamic Banking Competitiveness Report 2013–14, for 2012 the average ROE of the 20 leading Islamic banks was 12.6% compared to 15% for comparable conventional peers. The continued success in growing scale and operational transformation programs has the long-term potential to close the profitability gap with conventional banks. Many Islamic banks are already in the process of replacing or upgrading their core banking system, and should benefit from improved operations in the future.

Considering both a country's Muslim population and per capita income, the largest markets for Islamic finance include Turkey, Indonesia, Saudi Arabia, the United States, and France. The fastest growing markets are Malaysia, Bahrain, the United Arab Emirates, Indonesia, and Pakistan.

The potential for continuous growth in the Islamic finance sector is significant, with some estimates suggesting that within eight to ten years as much as half the savings of the world's 1.5 billion

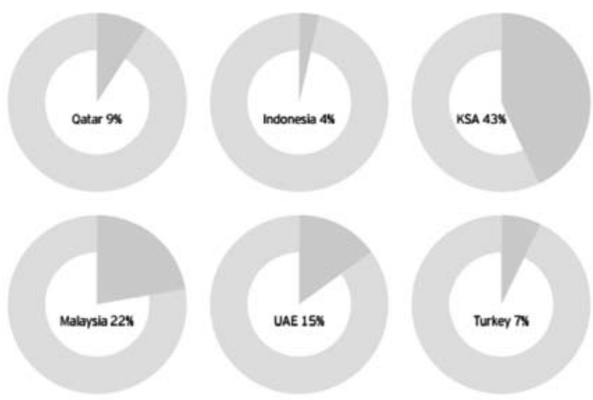

Figure 1. Islamic banking assets with rapid-growth markets.

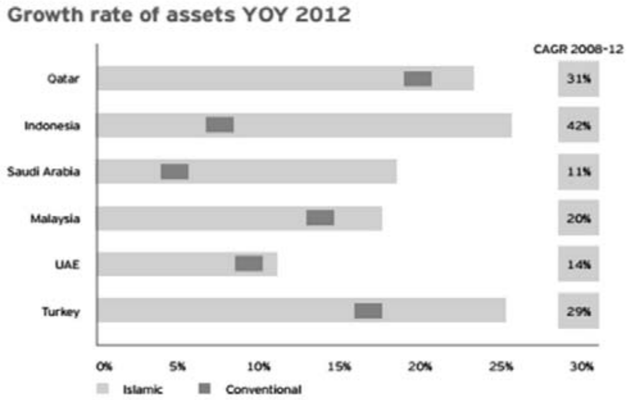

Figure 2. Growth rate in QISMUT.

Muslims will be in Islamic banks. This could represent $ 905 billion in total assets in Middle Eastern countries alone[2]. Muslims living outside of the Middle East represent an even larger population, including countries such as India, Indonesia, and Malaysia, but also within developed countries including the United Kingdom, France, Germany, the Netherlands, and the United States.

Islamic banks face several important barriers to becoming competitive with conventional banks. Currently, Islamic finance instruments are more expensive, less service oriented, and not as responsive to innovation. These disadvantages could hold important implications for developing consumer markets and financing trade in Muslim countries[3].

Rather than charging interest, Islamic financial institutions will typically share some of their borrowers' risks and profits (Donald Greenless, 2005). (A bank's profit from a 'loan' will vary with the borrower's profits from the application of the loan to new business activity.) Islamic finance also avoids speculation (e.g. reliance on the occurrence of events that may or may not take place), and investing in ventures that may have components that are not in line with the values of Islam (alcohol, gambling, drugs and tobacco) (*Khaleej Times*, 2005). Still, although Islamic financial principles may differ from those of conventional banks, in practice many differences tend to be negligible, and Islamic financial products look a lot like conventional mortgages, leasing, and business lending. Sharia-compliant financial products have expanded to include bonds, mutual funds, and insurance, traditionally an area of great debate among Sharia-compliant financiers (*International Herald Tribune*, 2005).

The growth of Islamic finance has helped to diversify markets and institutional structures, particularly in oil-rich Muslim countries, but also in countries with large Muslim minorities.

Islamic banks operate in countries that have adopted Islamic sharia principles (e.g. Iran, Pakistan, and Sudan), Muslim countries with both Muslim and conventional banks, and in developed countries side-by-side with conventional banks (Karbhari, Yusuf, Naser, Kamal, and Shahin, Zerrin, 2004).

In the United States, particularly in California, New York, and Michigan, Islamic finance has also grown rapidly. There are an estimated six million Muslims in the United States and about one-third of the 1.8 million household's desire Islamic financing, especially for home mortgages. Banks in the United States generated nearly $ 300 million in revenue from Islamic financing in 2004 and approximately $ 450 million in 2005, including $ 300 million in Islamic mortgages.

There were roughly 2.8 million Muslims in the United States as of 2010, according to the Pew Research Center's Religion and Public Life Project, though estimates vary. The most recent study published by the Association of Statisticians of American Religious Bodies estimates that Islam was the

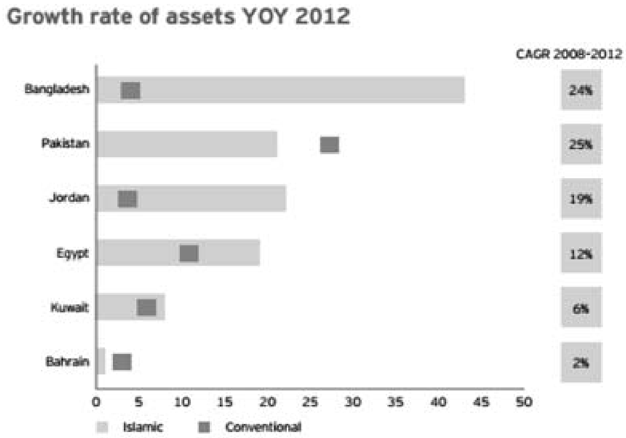

Figure 3. Growth rate in Middle East.

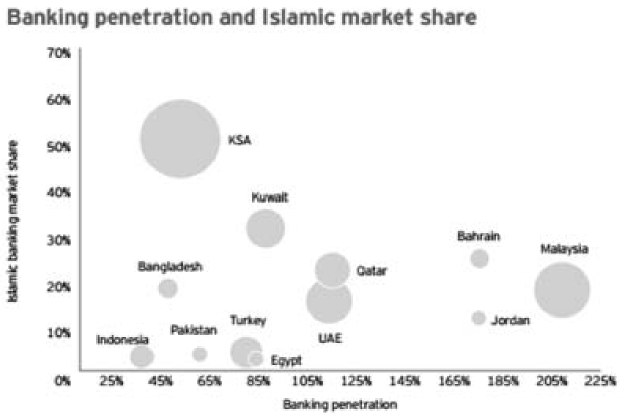

Figure 4. Banking penetration.

[2] Conventional financial institutions manage $ 1.1 trillion in Islamic funds (*Khaleej Times*)
[3] Institute of Islamic Banking and Insurance.

fastest-growing religion in the United States between 2000 and 2010. Yet there are relatively few financial products available here for those followers who require their financial contracts to comply with sharia law.

Globally, the Islamic finance industry is between $ 1 trillion and $ 1.5 trillion in size, according to the World Bank, in the vicinity of Australia's or Spain's gross domestic product. It's unsurprising, perhaps, since Muslims are almost a quarter of the world's population. That's an upper bound on the demand for Islamic finance, since not all Muslims demand sharia-compliant contracts. But in Muslim-majority countries like Bangladesh, Islamic financial products constitute as much as two-thirds of total financial sector assets. There are more than 400 Islamic financial institutions across 58 countries. Roughly 5 percent of total Islamic financial assets are housed in non-Muslim regions like America, Europe, and Australia.

The United States' Muslim population is roughly equal to that of the United Kingdom, a country that houses $ 19 billion in Islamic financial institution assets, more than 20 banks, and six that provide sharia-compliant products exclusively. Yet our market for Islamic financial products is much smaller. There's no single list of participating firms or aggregate estimate of assets, but one can find roughly a dozen firms that routinely offer Islamic banking and investment products to businesses and consumers, though several don't even market such products on their websites.

At the same time, this is an industry on the rise. Just 20 years ago, there were few Islamic financial products being offered at all in the United States. The industry is rapidly growing and adapting to American regulation (Haltom, 2014).

Islamic finance has quickly established itself in several markets, but its spread, growth, and ultimately its character, will depend on how it confronts several key challenges, including the general acceptance of Islamic finance, regulatory and soundness compatibility, obstacles to innovation, and other important barriers such as building economies of scale and training professionals in the intricacies of Islamic financial products. Many potential customers are not clear about what Islamic banking is and how it differs from conventional banking (Ainley, M. 1997). The strong and increasing desire of Muslims to more closely link their investment and lending decisions with their religious views is the key distinction in market segment that might otherwise suffer from large disadvantages in price, performance, service, and innovation. The willingness of customers to accept added complexity, higher costs, and lower performance in exchange for a closer alignment with religious beliefs will determine the near-term future of Islamic banking.

Islamic banking has been facing so many challenges since its origin. Islamic banking has been in transition and development phase in different countries for the last two decades. According to Khalaf (2007) Islamic banking industries have always suffered from the issue of different opinions of Islamic scholars, suppose a product or practice may be acceptable to one scholar, while could be considered un-Islamic by another scholar. Malaysia has established a standard sharia board which is supported by government. The Bahrain-based Accounting and Auditing Organization for Islamic Financial Institutions has established a group of religious advisors or scholars who are authorized to issue *fatwas* (order, decision) on Islamic financial products. But it remains a voluntary body; they are not strictly imposing these rules on these organizations, due to which some banks are ignoring the decisions of the board (Khalaf, 2007). It is true that Islamic banking is facing the difficulties of lack of authentication of decisions because there is no unity in the Muslim community: they have different beliefs, and it is possible that some decisions are not acceptable to one part of community.

Another significant problem for developing Islamic banking is keeping pace with investor demand for new and innovative products. Interpretations of Islamic finance often stall new projects, or at the other extreme, risk alienating a bank's client base. The ability of a bank to innovate depends on its capacity to get its products approved by its sharia supervisory council, made up of esteemed scholars conversant in Islam, economics, and finance, which recognize and sanction a bank's compliance with the requirements of Islam.

2.1 ISLAMIC FINANCE AND BANKING IN RUSSIA

There are about 15% Muslims population in Russia, but only four public organizations where they can invest and borrow in compliance with the Qur'an.

The first bank to offer Islamic financial services in Russia, Badr-Forte, started in 2006. The industry has been gradually sprouting ever since and lately seems to be making headway.

Several non-Islamic Russian banks have attracted *halal* investment in recent years, including Ak-Bars Bank in Tatarstan, which brought in a total of $ 160 million in two investment deals in 2012 and 2013. But despite these signs of growth, the country's pool of officially registered Islamic financial institutions remains limited to two organizations in Tatarstan and two in the republic of Dagestan in the North Caucasus.

Islamic finance is a fast-growing field worldwide, and proponents say it offers both ethical and practical benefits to the faithful and non-Muslims, however, lags behind the industry. Russian Muslims are slow to change their financial habits, while nonbelievers are plagued by a deep-rooted distrust of Islam — as are, to some extent, the financial authorities, who are in no hurry to adapt economic legislation to facilitate Islamic banking.

Still, an Islamic finance industry has been budding over the past decade in Russia, and analysts and players show cautious optimism about its prospects.

"*The niche is small, but the demand is better than, say, seven years ago*" (Rashid Nizameyev, the head of finance house Amal).

The financial merit of the Islamic system is a more complicated issue. Islamic banking offers better interest rates; However, in general, Islamic banking operations are less profitable than conventional banking, but banks can make up for that by devoting a bigger share of the profits to dividends. On the other hand, Islamic banking is more client-friendly, because of its ban on financial speculations, interest in Islamic banking has even peaked worldwide since the last recession — though not necessarily in Russia.

In Russia the Islamic finance market is in "embryonic stage". the total volume of assets managed by Russian *halal* financial institutions is at $ 10 million, a blip on the radar for the country's banking system, whose total assets stood at 57.4 trillion rubles ($ 1.7 trillion) in 2013 (Juravliov, 2014).

The prospects for growth may seem glorious, given the size of Russia's Muslim population.

Russian regulations are also poorly suited to Islamic banking: Russian banks are supposed to refrain from trade operations, in which they would technically engage when providing many Islamic banking services.

Another problem is widespread distrust of Islam, a result of the 15 years of violent turmoil in the largely Muslim North Caucasus. Many officials share this antipathy, which is why they have little desire to modify Russian legislation for the industry. Although the situation is better in the Muslim heartlands: For example, authorities in Tatarstan are interested in supporting Islamic finance and have hosted numerous conferences on the matter. However, this support has yet to translate into some kind of financial backing or tax breaks. The industry still has plenty of room to grow — Thomson Reuters forecasts that Islamic banking assets in Russia will reach up to $ 10 billion by 2018.

3. CONCLUSION

Islamic finance has become a mainstream funding source for some other governments and companies over the past several years, with even non-Muslim nations such as Britain and South Africa issuing debut Islamic bonds [*sukuk*] and other Islamic instruments.

Considering the growth of Islamic banks across the world, some non-Muslim countries like Russia are trying to adopt and use more of Islamic finance services: some Russian lenders are trying to build their own in-house knowledge of Islamic finance. It is due to recent sanctions, as in the Vnesheconombank (VEB), which has been targeted by the sanctions, is seeking help Middle East firms to develop its Islamic finance expertise.

The regulator continues to study the question of introducing Islamic finance regulation but work is at an early stage and it is not yet clear when any new rules would be drafted.

In case of challenges, Islamic banks must overcome other competitive issues if they are to offer competitive pricing and the same innovative advantage as conventional banks. In some countries, market demand for Islamic banking services may never be large enough to warrant the creation of banks with efficient scale, so national consolidation of existing Islamic banks may not always be a viable solution. Although merging with a conventional bank might be a possible alternative, this could jeopardize the legitimacy and credibility of Islamic bank's financial products.

Finally, the differences in the structure of products across countries — or even from one bank to another — add to the difficulties of cross-border expansion and back-office outsourcing.

The Islamic finance market is a rapidly growing sector. Successful market entry will require careful planning, flexibility to change as the sector evolves, and broad understanding of not only Islamic finance and Islam in general, but the particular region, or sub-population to be targeted by a market strategy.

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