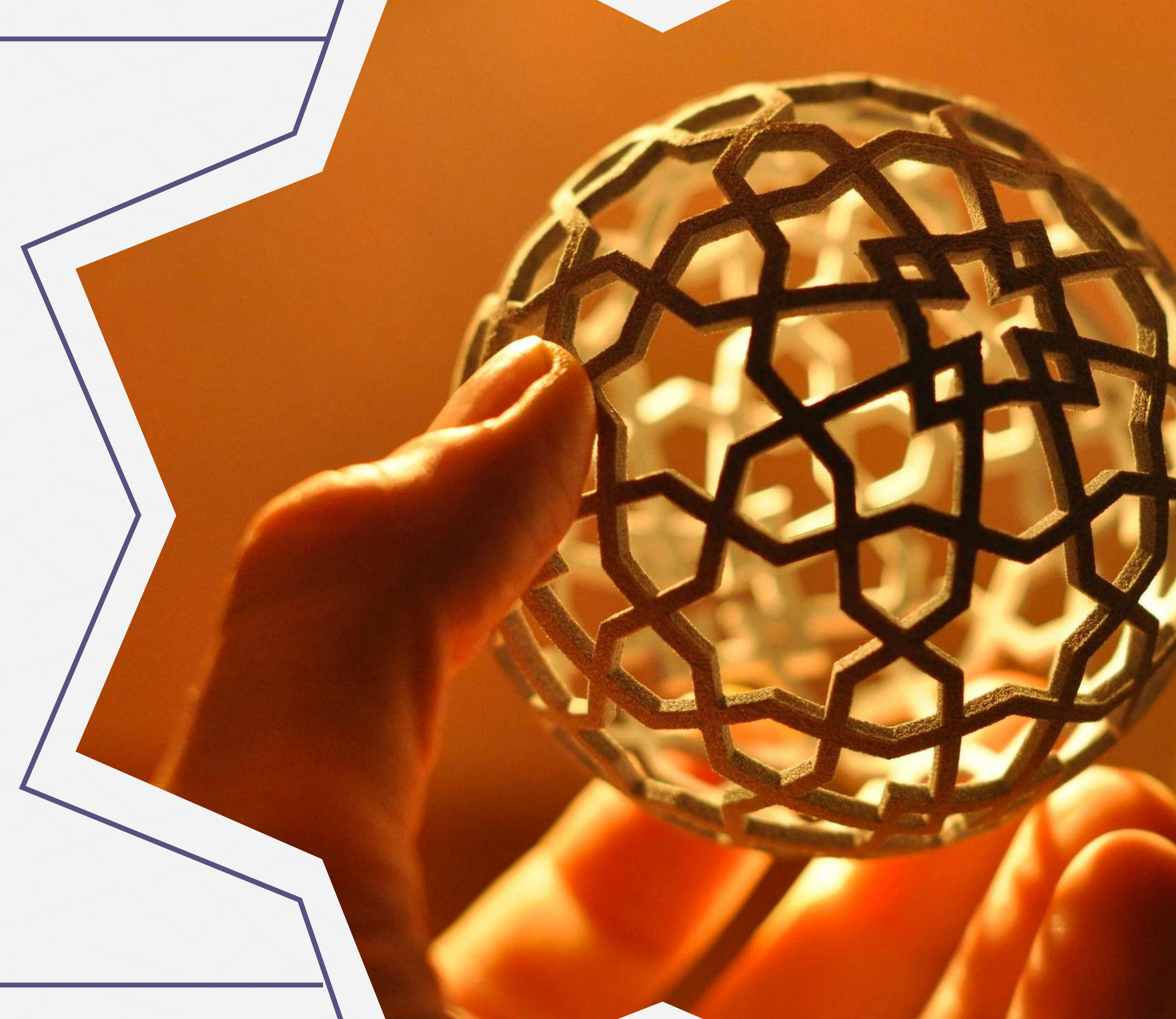


ISLAMIC BANKING: BUSINESS MODEL, ISSUES AND CHALLENGES

Source: Ibrahim, Mansor H. and Salim, Kinan. (2017). Islamic banking: business model, issues and challenges. In Baharom Abdul Hamid, Mansor H. Ibrahim & Sazalina Kamarudin (Eds.), Islamic finance: the new normal (pp. 67-82). Kuala Lumpur, Malaysia: RAM Holdings Berhad.

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INTRODUCTION



The Islamic banking sector has ascended to be systematically important in several OIC countries particularly in Malaysia and the GCC.



The sector gains traction in the non-Muslim world because of its sustained growth in the provision of financial services founded on Islamic principles.



Islamic banking sector is now viewed as a material segment of the global finance industry.



Ultimate aim of Islamic banking: to ensure **equity**, **sustainability** and **growth**.

DEVELOPMENT OF ISLAMIC BANKING

Began in 1960s and 1970s with the inauguration of Islamic banks in several Muslim countries (i.e. Egypt, United Arab Emirates (UAE), Sudan and Kuwait).

The aims of Islamic banking:

- i. To offer basic banking services to Muslims.
- ii. To provide wholesome banking alternatives to conventional banking in several countries (Muslims and non-Muslims).

Development of Islamic banking in Malaysia:

	1983	1993	1999
	Sole Islamic bank, Bank Islam Malaysia Berhad (BIMB)	Conventional banks in Malaysia were allowed to have Islamic windows	The second domestic Islamic bank, Bank Muamalat Malaysia

SHARIAH PRINCIPLES OF ISLAMIC BANKS



ISSUES AND CHALLENGES

Islamicity of Islamic banks



The doubt over the Islamicity of Islamic banking stems from these observations:

- The pre-dominant concentration of the Islamic banks on *murabahah* financing.
- The pricing benchmark of Islamic banks.
- The lack of truly distinct Shari'ah-based products.

Islamic banks and monetary policy

Development of monetary policy for Islamic banks.



Socio-economic impacts of Islamic banks



- Whether it has fulfilled its theoretical promises in promoting equity, stability and growth is less known empirically.
- Key challenge: to demonstrate the real effects of Islamic banking.
- Ability to promote equity, stability and growth.

Competitiveness



The question as to whether Islamic banks can be competitive at global scale.

Stability and resiliency

Islamic banking gathers interest from the global community due to its relative stability and resiliency during the recent global financial crisis.

