



# The Islamic Financial Services Industry

Prof. Dr. Volker Nienhaus  
President, University of Marburg

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contact: Prof. Dr. Volker Nienhaus, University of Marburg,  
Biegenstrasse 10, 35032 Marburg, Germany,  
Tel. +49 6421 282600 – email: [president@uni-marburg.de](mailto:president@uni-marburg.de)

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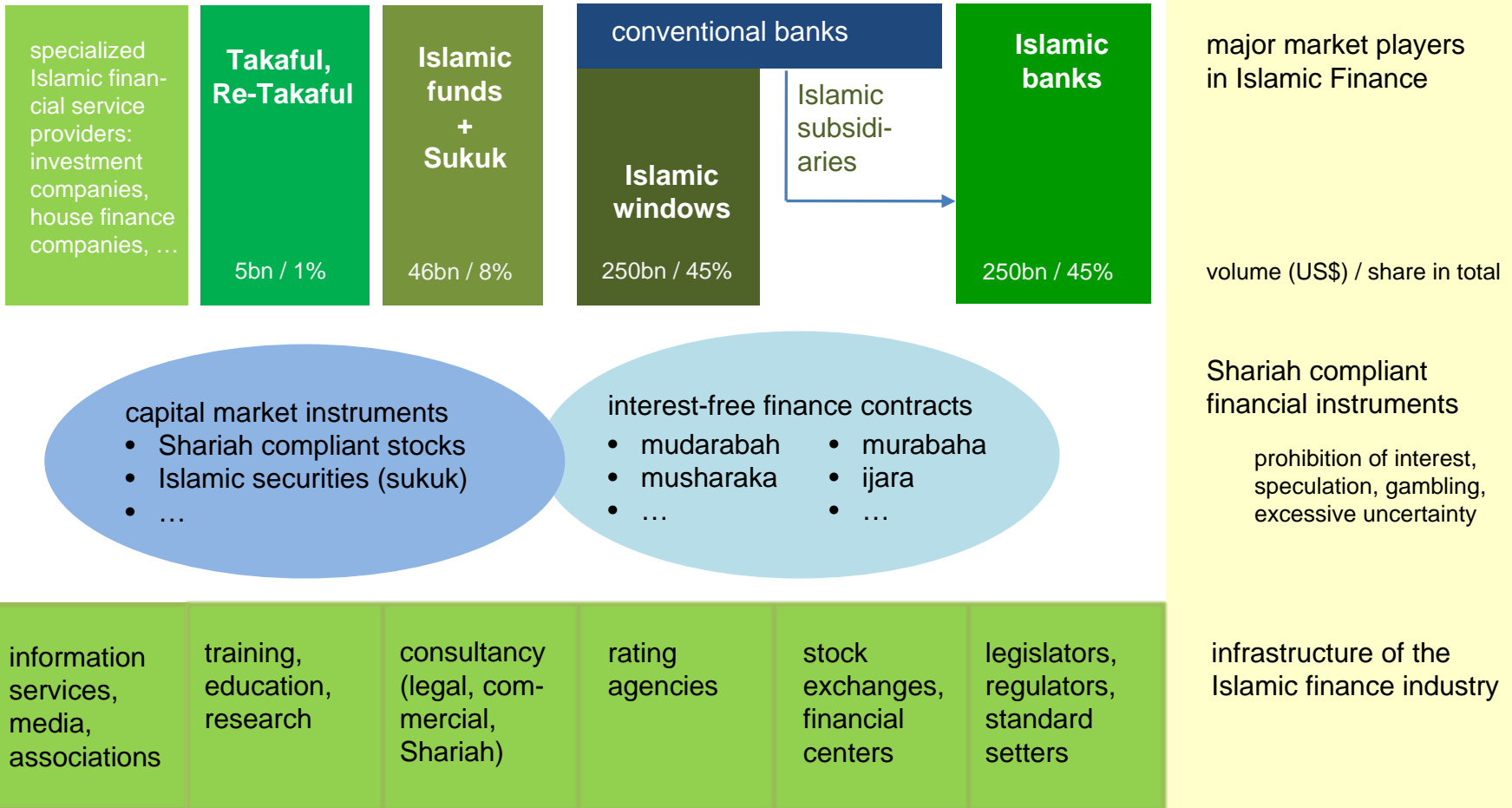
jointly organised by

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and

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Bank for International  
Settlements**

## The Structure of the Islamic Finance Sector



## A Short History of Islamic Finance

- 1970s**
  - Islamic economics (strong focus on ideology )
  - Islamic banking (focus on commercial viability)
- 1980s**
  - discrepancies ideology (PLS) / practice (mark-up)
  - development of products for individual banks
  - Islamisation in Pakistan, Sudan, Iran
  - establishment of new Islamic banks in more countries
- 1990s**
  - instruments for Islamic inter-bank market
  - instruments for structured finance
  - accounting and auditing standards
  - dual banking / Islamic windows in Malaysia
- 2000s**
  - conversion of conventional banks
  - increasing number of conventional (global) players
  - support infrastructure (law firms, rating, indices, ...)
  - adaptation of regulations
  - human capital shortage
  - strong growth of capital market products (esp. sukuk)

### ideological opposition

systemic alternative  
(theory of  
PLS economy)

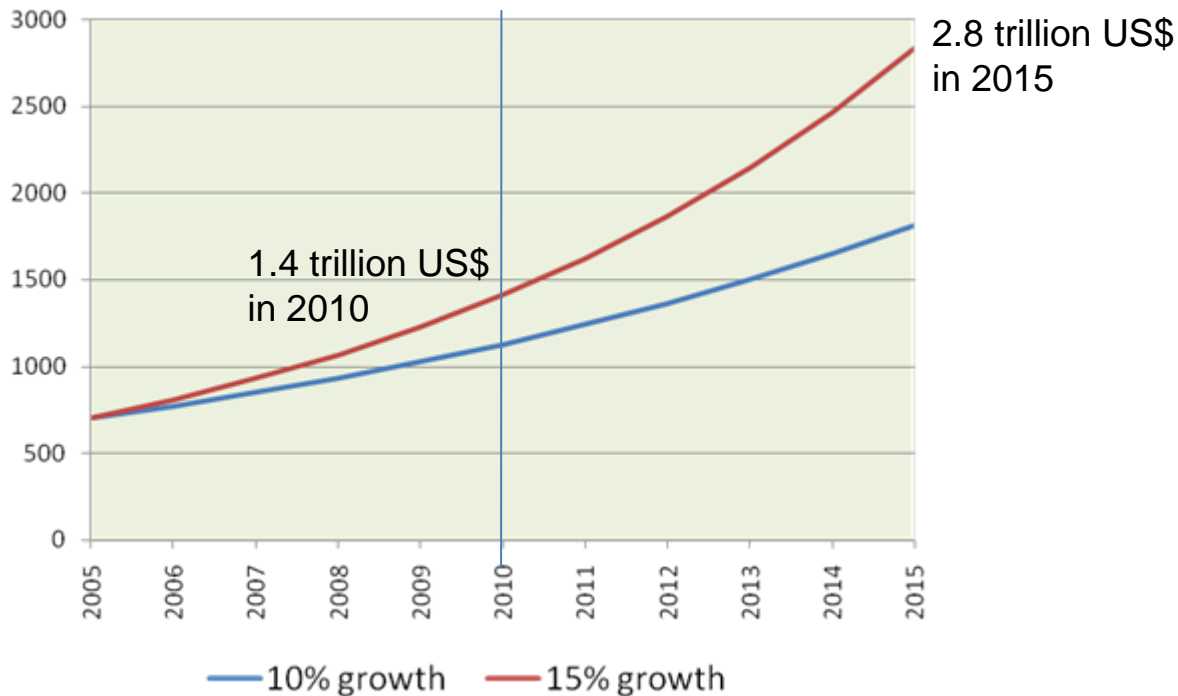
coexistence (reality of  
cost-plus financing)

transformation and  
convergence  
(*tawarruq*)

integration  
(*sukuk*)

segment of the  
global financial system

## Expected Growth of the Islamic Financial Services Industry (billion US\$)



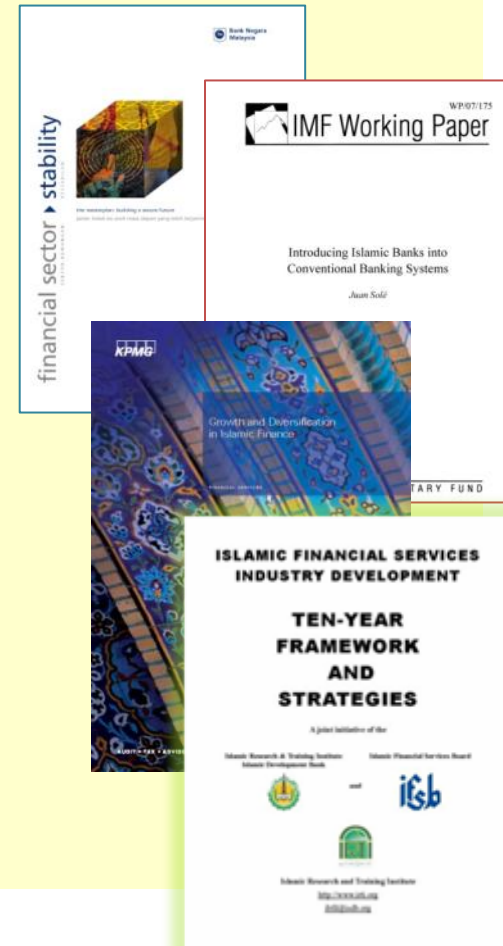
### Situation in 2005

- more than 300 Islamic financial institutions in over 65 Muslim and non-Muslim countries,
- managing assets worth 700 billion - 1 trillion US\$
- approx. 80 *sukuk* issues (worth 18 bn. US\$)
- more than 250 Shariah-compliant mutual funds (11 bn. US\$ assets, mainly Saudi Arabia & Malaysia)
- Shariah-compliant annual stock market capitalization in Muslim countries 300 bn. US\$
- *takaful* concentrated in Bahrain, Malaysia, Sudan

## Expected Developments in the IFS industry

- ✓ continued high growth boosts market shares of Islamic Financial Services:
  - 50% by 2015 in GCC countries
  - 15-25% in South Asian countries
  - growth in non-Muslim countries
- ✓ Industry consolidation (market-driven & mandatory) through mergers and acquisitions
- ✓ growth of Islamic capital markets, esp. *sukuk* markets (boost from real estate, infrastructure finance, corporate needs)
- ✓ broader and deeper understanding of Islamic finance (by public and regulators)
- ✓ robust and fast growth of *takaful*

news, views, scenarios:



## Factors Supporting Growth of Islamic Finance

### Markets

- 1980s
  - proof of commercial viability and competitiveness
  - emergence of more and stronger players, *inter alia* by conversions, Islamic windows (Malaysia), entry of Western banks
- 1990s
  - standardization of basic products and accounting procedures
  - more sophisticated products (securitization, derivatives, ...)
- 2000s
  - support infrastructure (AAOIFI, indices, rating agencies, ...)
  - more precise accounting rules and Shariah criteria
  - link of conventional and Islamic markets(players via *sukuks*)
  - rapid growth of *takaful* in under-insured Muslim societies (re-insurers entering the re-takaful market)

### Politics

- 2000s
  - more licenses in more (Muslim and non-Muslim) countries
  - better regulatory regimes (central banks, IFSB, ...)
  - supportive attitude of authorities  
(including non-Muslim countries/institutions:  
UK, Singapore, China/Hong Kong, IMF, BIS, ...)

→ broadening and deepening of Islamic financial markets

„Since current trends indicate that Islamic banking will continue to increase its penetration of conventional systems, policymakers and practitioners need to become acquainted with this process and its implications for financial supervision. This paper seeks to fill this void in the literature.”

from IMF Working Paper  
07/175, July 2007

## The European Dimension

### Political Environment

- Euro-Arab and Euro-Islam dialogue, European Islam
- more supportive attitude of authorities
- ambitious plans of some governments (London as Islamic finance hub)
- serious consideration of regulatory issues and taxation problems

### Commercial Potentials

- growing oil wealth in the Gulf area with limited absorptive capacities
  - growing volumes of EU-Gulf trade and investments
  - private banking services of European banks for high net worth individuals in the Gulf
- European project and corporate financing with Islamic instruments
- Shariah compliant (sukuk) financing of public debt (Saxony-Anhalt)
- European know-how for financial innovation in Islamic banking
- Islamic retail banking in the UK (1.8 million Muslims)
- house building finance in high demand by Muslims in Europe
- debatable market potentials for other Islamic banking services in continental Europe
- widely untapped potential for Islamic insurance (takaful)

European initiatives have contributed significantly to the qualitative and quantitative development of Islamic finance. **Islamic banks** in the Muslim world will benefit from the growth of a Shariah compliant **capital market** in Europe and the could benefit from an expansion of **takaful** once it takes off in Europe.