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The Banker

Banker survey shows the growth in Islamic finance

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Has Islamic finance reached a significant size and maturity to genuinely compete with conventional banking services? Can Islamic banking be more than a niche industry?

The Banker's third annual survey of the world's Top 500 Islamic Financial Institutions this month suggests that not only has the industry avoided the calamities of conventional banks that led to the current global banking crisis, it has also managed to maintain strong asset growth in turbulent economic conditions.

Healthy growth

The 2009 survey shows that the volume of sharia-compliant assets of the Top 500 grew by an extremely healthy 28.6%, rising to $822bn from $639bn in 2008. At a time when asset growth in the Top 1000 World Banks slumped to 6.8% from 21.6% the previous year, Islamic institutions were able to maintain the 28% annual compound growth achieved in the past three years.

The industry also continued to expand, with 20 new entrants bringing the number of sharia-compliant institutions to 435, with a further 191 conventional banks having sharia windows. The Islamic banking geographies are stretching beyond the existing strongholds of Iran, Saudi Arabia, Bahrain, Malaysia and the UAE to Europe, South Africa, Kenya and Indonesia.

Has the new industry now come of age? Despite its dramatic growth, the sharia-compliant aggregate asset total is still less than 1% of the Top 1000 World Banks aggregate asset total. And while its innate conservatism, its risk-sharing philosophy and asset-linked strategy provide many attractions to both Muslims and non-Muslims alike, its core structure still raises concerns.

The benefits of a non-speculative approach are countered at this time by deficiencies in the standardisation of products, the secondary market in financial instruments, transparent pricing and effective liquidity management.

Some new structures, such as sukuk, are yet to be fully tested in tough legal battles over ownership and rights as issuers enter financial distress. The recent defaults of Kuwait's Investment Dar and Saudi Arabia's Saad and Algosaibi Groups may provide important insights over the comparative treatment of sukuk holders and conventional creditors.

Islamic finance is attracting huge support globally, and even the French government has recently encouraged new Islamic banking legislation. The global banking crisis may have inadvertently provided a stimulus to Islamic finance and this new industry has come a long way fast. But it still has some way to go.