



ISLAMIC FINANCE

GROWTH OF ISLAMIC FINANCE IN THE UNITED KINGDOM

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Abstract:	
<p>The purpose of this study is to describe the Islamic financial market and products with a particular focus on the growth of Islamic finance in the UK market. Due to its global growth trends, Islamic finance is rather a hot topic in the world of economics. The UK is the leading western world for Islamic finance. Islamic Finance is quite interesting, especially because during the recent financial crisis it showed enormous resilience. It is also an area that is not well explored in depth. The Study furthermore demonstrates the challenges Islamic finance experiences in the UK. This study adopted a positivism attitude as the study dealt with a view that only factual knowledge is truthful and trustworthy. A descriptive research design is chosen because it will help in the collection of quantitative and qualitative data to answer the research question or test the research hypothesis. Therefore, secondary data collection method will be best. The collected data were analyzed through content analysis and descriptive analysis. The study used asset value, profitability and market share in measuring the growth of the banks. The development of differentiated Islamic banking products has also contributed to the growth of Islamic banking in the UK. The results revealed that political goodwill and political structure in the UK contribute to the growth of Islamic Banking in the UK. The development of Islamic sharia compliance financial products and increasing market demand for Islamic products contributed to the growth of Islamic banking in the UK. The increasing awareness of Islamic banking products and services through involvement of the Muslim community organizations and the increase in promotion of Islamic banking product that led to the interest of the products and services leading to the development of the growth of the Islamic Banking. Findings indicated that Islamic banking and conventional banking institutions with Islamic segment or window enhance investment through financing real estates and also the provision of insurance services, the financing transport enterprises without interest charges on loans. In conclusion, conducive environment created by the support of the government instituting financial regulation through Financial Service Authorities (FSA) and the government encouragement for the development of Islamic Banking, market development and demand, development of Islamic finance products and services contribute to the growth of Islamic banking in the UK.</p>	
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<p>Tämän tutkimuksen tarkoituksena on havainnollistaa islamilaisen rahoitusjärjestelmän peruseriaatetta ja keskittyä erityisesti islamilaisen rahoituksen kasvuun Ison-Britannian markkinoilla. Maailmanlaajuisesti kasvavien suuntaustensa vuoksi islamilainen rahoitus on puhuttu aihe talousmaailmassa. Iso-Britannia on islamilaisen rahoituksen johtava länsimaa. Tämä on mielenkiintoista erityisesti siksi, että viimeaikaisen rahoituskriisin aikana se on osoittanut merkittävää sinnikkyyttä. Islamilaista rahoitusjärjestelmää ei ole vielä tutkittu perusteellisesti. Tässä tutkimuksessa osoitetaan islamilaisen rahoituksen kokemat haasteet Isossa-Britanniassa. Tutkimuksen metodiksi on valittu kuvaileva tutkimussuunnittelu, koska se auttaa keräämään kvantitatiivisia ja laadullisia tietoja vastaamaan tutkimuskysymykseen tai haastamaan tutkimuksen hypoteesia. Tutkimuksen kohteena olivat Iso-Britannian kaikki kuusi islamilaista pankkia ja 16 perinteistä pankkia, jotka tarjosivat islamilaisia pankkituotteita ja -palveluja. Tutkimuksessa käytettiin kvalitatiivisia ja toissijaisia tietoja. Kerätyille tiedoille tehtiin sisällön analysointi ja kuvaileva analyysi. Pankkien kasvua mitattiin varojen arvolla, kannattavuudella ja markkinaosuudella. Islamilaisen pankkituotteiden kehittäminen on myös edistänyt islamilaisen pankkitoiminnan kasvua Isossa-Britanniassa. Tulokset osoittivat, että poliittinen hyvä tahto ja poliittinen rakenne Isossa-Britanniassa edistävät islamilaisen pankkitoiminnan kasvua. Tulokset osoittivat myös, että islamilaisen pankkitoiminnan kasvu on tehokasta riskien hallintaa. Islamilaisten Sharia-vaatimusten noudattaminen, rahoitustuotteiden kehittäminen ja islamilaisien tuotteiden kysynnän kasvaminen myötävaikuttivat islamilaisen pankkitoiminnan kasvuun Isossa-Britanniassa. Islamilaisen pankkitoiminnan kehittyvä kasvu on seurausta islamilaisien pankkituotteiden tietoisuuden lisääntymisestä ja muslimiyhteisön organisaatioiden osallistumisesta toimintaan. Tulokset osoittivat, että islamilaiset pankit ja tavanomaiset pankkilaitokset, joilla on islamilainen segmentti, lisäävät investointeja kiinteistöjen rahoittamisen, vakuutuspalvelujen tarjoamisen ja liikenneyritysten rahoittamisen kautta ilman lainojen korkokuluja. Yhteenvetona voidaan todeta, että suotuisa ympäristö, joka on luotu rahoitussääntelyä käynnistävän hallituksen tukemana, rahoituspalveluviranomaisten (FSA) kautta ja hallituksen kannustamana tukee islamilaisen pankkitoiminnan kasvua Isossa-Britanniassa.</p>	
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<p>Meningen med den här studien är att illustrera den fundamentala principer av den islamiska finans systemet med fokus på den växande islamiska finans i den brittiska marknaden. På grund av den globala växande trenden är islamisk finans ett viktigt ämne i världens ekonomi. Storbritannien är det ledande landet i västvärlden för den islamiska finans, det är intressant speciellt under den senaste finanskrisen har den visat sig vara extremt spänstig (resilience). Det är också ett område som inte är så utforskat på djupet ännu. Studien demonstrerar utmaningarna av den islamiska finansens erfarenheter i Storbritannien. Studien visade en positiv attityd som studien tog hand om en syn om enbart kunskapen var trovärdig, beskrivande forskning är vald på grund av att den hjälper i samlagen av kvantitet och kvalitet i informationen av svaren i ju forskningens frågor och test antaganden. Studien använde kvalificerad och sekundär information. Den samlade informationen var analyserad genom nöjaktiga och väl beskrivna analyser, studien använde sig av tillgängna värden, intjänandet och marknadsdelningens tillväxt i bankerna. Utvecklingen av annorlunda islamiska bank tjänster har också påverkat tillväxten av islamiska banker i Storbritannien. Resultatet visade sig att politisk välvilja och struktur har bidragit tillväxten av islamiska bankerna i Storbritannien. Utvecklingen av islamisk sharia finans produkter och den ökande marknaden har bidragit till tillväxten av islamiska banker i Storbritannien. Tillväxtens medvetande av islamiska bankers tjänster är igenom engagemanget av dom muslimska samfunden och organisationernas ökande av påtryckningar av islamiska tjänster och produkter inom bankerna. Det indikerade att islamska banker och konventionella bankers verksamhet har islamiska inslag för att erbjuda muslimer tjänsteför att köpa egendomar, försäkrings tjänster, finansiera transport verksamhet, utan ränta för lån. Gynnande av regeringens institutioner av finansiära regleringar av Financial service authorities (FSA) och regeringens uppmuntrande av utvecklingen av islamiska banker, marknads utvecklingen och efterfrågan, finans risk hanteringen, utvecklingen av islamiska finans tjänster och produkter, skapande av medvetandet av islamiska bank tjänster och produkter nyttjar tillväxten av islamiska banker i Storbritannien.</p>	
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ABBREVIATION/ GLOSSARY OF ARABIC WORDS

Al-Ijara	Leasing Contract
EU	European Union
Fatwa	A legal belief or decree made by a <i>Shari'ah</i> board, a mufti or a <i>faqih</i> on any matter pertinent to <i>Shari'ah</i> -related issues, i.e. based on the appropriate methodology.
FSA	Financial Service Authority
	Gabriel; its precise meaning and wording transmitted to us by numerous persons, both verbally and in writing.
Gharar	Describes a risky or dangerous sale, where the details of the sale contract are unknown or uncertain
Haram	Forbidden
I.R	Interest Rate
IB	Islamic Banking
IF	Islamic Finance
IFIS	Islamic Financial Information Service
IFSB	Islamic Financial Service Board
Istina'	Refers to an agreement to sell a non-existent asset, which is to be manufactured or built according to the buyer's specifications. It is to be delivered on a specified future date at a predetermined selling price.
	Gambling
Mudarabah	Profit and Loss-Sharing
Murabahah	Mark-up sale; a commodity <i>Murabahah</i> involves a purchase and sale transaction related to <i>Shari'ah</i> -compliant commodities, whereby the buyer purchases such products on a deferred payment basis and afterward sells them to a third party for a cash payment
Musharaka	Joint Partnership
Quran	The word of Allah revealed to the last prophet, Muhammad, by the Angel
Riba	Usury (Interest)
Sharia'h	Islamic Law
Sukuk	Islamic Bonds
Takaful	Islamic Insurance
UK	United Kingdom

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1 INTRODUCTION

1.1 Background

The growth of Islamic banking in the international market has been motivated by the need to meet governance, ethical and religious values (Bukhari, Huma, Imam, & Qadri, 2014). The building of development and growth of Islamic finance relies on beliefs from religious and moral behaviors. This is supported by Nawaz and Bardai (2017) that Islamic finance is anchored on justice with Islamic commercial banks and emphasize on religious values and achieve profitability objectives. Islamic banking has experience development of many financial products and services in the Europeans countries like UK, Germany, France, and Japan (Bukhari, Nawaz, & Sair, 2014)

Islamic Finance is derived from different sources such as the Quran, Islam holy book as well as a body of laws which are not codified but underpin Islam generally. This lack of codification is thought to subject Islamic law to development and interpretations that are subjective. In order for the products offered under Islamic Finance to be considered compliant with Islamic law - also known as the Shari'ah - institutions have to receive opinions from scholars of religious scholars. The term Islamic finance, according to (Mirakhor and Smolo, 2014) refers to a set of financial institutions as well as the financing of commercial activities. Under the Islamic Shariah, money is to be understood as only defining the value of something but has no value in itself (Mirakhor and Smolo, 2014). As such, under Islamic finance, money cannot be transacted on its own unless it concerns a tangible good. What this means is that money can be used to purchase a product but it cannot have a value in itself. Islamic Shariah forbids the charging of interest known as "Riba", contractual uncertainty as well as gambling and trade in a number of industries which are prohibited including pornography, alcohol, and tobacco. (Hasan, 2015).

The rules of the Islamic financial institutions are underpinned by Islamic law and Fatwas which are essentially scholarly decrees (Hasan, 2015). There is lack of international bodies that provide general supervision to organizations that provide Islamic Finance. The internationally recognized

guidelines are adopted by financial institutions which in themselves are not binding officially (Hasan, 2015). As such, each Islamic Financial Institutions applies its understanding of the Shariah using the guidelines issued by its Shariah board, whose task is to oversee the application of Shariah in its products.

Islamic Finance requires that investment be made on tangible products that exist in the real world such as business or property with the exception of those involved in the sale of alcohol, gambling or tobacco. According to Rarick, (2009) under Islamic Finance, money is not allowed to generate more money by simply being lent to an individual or business or by being deposited in a bank. Banks, however, make their money through a risk sharing scheme that operates on a profit and loss basis. Whereas conventional banks make their profits from the offering of loans and the charging of interests as well as mortgages. Banks that are Shari'ah compliant make their profit from investing money in assets and sharing the profits made from the acquisition of those assets to the clients that have deposited money in their bank (Rarick, 2009). This risk sharing aspect with the investors results in high levels of uncertainty which are known as "Ghara". There is an obligation for the borrowing party to disclose all relevant information including risks to the investors so that they can be identified and an informed decision made (Hasan, 2015).

The development of Islamic banking is not restricted to Islamic countries alone and expanding even to western countries such as the USA, and European countries such as the United Kingdom. Conventional banks in western countries are also offering an Islamic window where they provide Islamic financial products and services to Muslim and non-Muslim customers. Growing of Islamic finance has been experienced despite the global economic crisis that occurred in the global financial market. The current financial reports indicated that the Islamic banking sector indicated a two-figure increase in growth over the last 10 to 20 years. According to Malaysia(KFH)Report indicated that Malaysia experience expansion on Islamic banking to 75 regions with over 600 Islamic institution opening Islamic businesses with an approximate \$2 Trillion representing an increase of 20% (KFH Research, 2013).

1.2 Research Problem

The Islamic financial industry experienced an upward trend in growth. Islamic Financial system recorded expansion by 10-15% per year over the last decade and gaining popularity globally (Expert, Islamic Finance, 2012). Islamic banking has experience growth globally in the last 10 years and growth forecasted at least by 40% in the next more than two years to raise the asset by \$1.8bn in 2018 as reported by Ernst & Young (Handcock, 2018). The growth of Islamic banking has been experienced in not only in countries such as Malaysia, Middle East, and Arab countries but also in western countries such as the USA, European Courtesies such as Germany and United Kingdom (UKIFS, 2013). This has also contributed to the expansion of international Islamic banking assets summing up to US\$1.6 trillion in the year 2016 and continue to grow at the rate of 7% annually.

IF has recorded upward trends in Islamic banking in the UK. There has been increasing expansion of the IFs. The country experience increases in fully sharia compliance banks to 6 and over 16 conventional banks offering Islamic windows to offer Islamic sharia compliance products to Muslim and non-Muslims customers. According to the IFSB report (2013), the UK has emerged as a critical trading center for Islamic financial bond trading over \$50 Billion trading Sukuk (Bonds). Despite the increasing trend in the growth of Islamic banking in the UK, there have been no empirical studies that have to assess determinants influencing registered growth. This study sought to determine factors influencing growth of Islamic banking in the United Kingdom.

1.3 Research Aim

The United Kingdom is the leading western center for Islamic finance in the world outside Muslim countries. Islamic Finance is an interesting topic, especially because during the recent financial crisis it has shown enormous resilience. It is also an area that is not well explored in depth.

The aim of this study is to describe the Islamic financial market and products with a particular focus on the growth of Islamic finance in the UK. The research questions are split into three

different parts such as the products offered by the Islamic banks, identifying and discussing factors behind the growth of Islamic finance in the UK and also certain challenges Islamic finance faces in the UK.

1.4 Research question

The study objectives consist of the following questions.

- i. What type of Islamic financial products are provided in Islamic banking in the United Kingdom?
- ii. What are the dynamics influencing the growth of Islamic finance in the United Kingdom?
- iii. Challenges of Islamic finance in the United Kingdom?

2 LITERATURE REVIEW

This literature review presents the concept, previous research, the fundamental principle of Islamic finance, development of Islamic finance in the UK, Riba (Interest) and growth of Islamic banking and Finance.

2.1 Previous Research

Elaine Housby authored dualistic books in 2011 and in 2013 on Islamic finance in the UK. The first book was printed in 2011 named “Islamic Financial Services in the United Kingdom” and the second one in 2013 named: “Islamic and Ethical Finance in the United Kingdom”.

In the first book, the author gave a complete record of the Islamic financial services that are accessible in the United Kingdom. At the time, giving a general record of the British Muslim population, its size, age, origin, location, educational and career accomplishments, followed by a diagram on the historical backdrop of Islamic finance in the UK and a draft on the fundamental values of Islamic understanding on economic subjects. Along these lines, she managed, thusly, with every section of financial services as they exist at the time in the UK, including individual records, home purchase finance, the equivalents of personal loans and insurance, investments, Sukuk (Islamic Bonds) and business financing. (Elaine, 2011)

In the second book, Housby addressed inquiries, for example, what precisely is ethical finance? Is Islamic finance ethical? Is ethical finance Islamic? By analyzing an extensive variety of financial organizations in the UK, which fall comprehensively within the moral sector, deliberating about the nature of their ethics and practices, and how they identify with Islamic models to Muslim societies. She analyzed the standards and operating of Islamic and mainstream ethical financial services in the UK and gave a comparison of non- Muslim thought and common ethical financial services with Islamic practice. (Housby, Elaine, 2013)

(Sheryar Khan, 2012) Explored the perception and awareness of non-Muslims towards Islamic finance in the United Kingdom and the determination criteria utilized by the customers in picking a financial institution. The author explained to which degree non-Muslims know about Islamic finance in the UK and their opinions towards it. He clarified the behavioral aspect of consumers toward the financial services industry, which helps in shaping recognitions or perceptions. The author later talked about the characteristics and in addition the extraneous variables that influence non-Muslims perceptions towards Islamic finance in the UK.

(Rodney, 2007) Took a gander at the most recent developments about "Islamic finance in Europe", with references to the encounters of a few nations, for example, Germany in regard to the issuance of instruments (Sukuk), and the United Kingdom regarding authorizing of Islamic banks and conventional financial services that are "compatible with the provisions of the Islamic Sharia". The research concentrated on the British government for the issuance of sovereign Sukuk (Islamic Bonds) and the factors that made Britain groundbreakers compared to their European counterparts in Europe.

2.2 History of Islamic Finance

Islamic Finance has been in place since the 7th century when Prophet Muhammad prohibited transactions that involved interest as well as gambling and speculation or deception of any kind in business (El-Ashker and Wilson, 2006). However, in modern times, the institution of Islamic finance has been developed in several phases. In its first phase in the period between 1940 to 1950 when many Muslim countries become independent of European colonization Pakistani was the first country to attempt its implementation when a group of pious landowners in rural parts of the country attempts to deposit funds without obtaining any interest from it. Credit was, then extended to other small farmers to improve their agricultural activities and they were not charged any interest (El-Ashker and Wilson, 2006).

The Second phase of the development of the Islamic Institutions took place in the 1960s with the introduction of a bank for savings in rural Egypt in an area known as Mit Ghamr. That was established with funds that were managed according to the Islamic Shariah? This experiment was successful and was backed by local groups including farmers and students as the bank offered important services to the local population. Despite this, the banking experiment came to an end after a three-year period. The bank was particularly useful in that it reduced the amounts of debts that rural communities had been accruing. It provided relief from the reliance on the few lenders who charge high rates of interest for the money they gave out to borrowers (El-Ashker and Wilson, 2006).

Following this period, it laid the foundation for a number of other Islamic institutions that adopted the model provided by these early experiments. Among the institutions that emerged from the ashes of these experiments include the Egyptian Nasser Social Bank that was established in 1971. The bank aimed to serve populations that had low income who were previously underserved by the local financial institutions. As well as these, an intergovernmental bank known as the Islamic Development Bank (IDB) was established in 1975 which was also followed by the Dubai Islamic Bank (DIB) established in the same year (El-Ashker and Wilson, 2006). Another of these important experiments was carried out in Malaysia with the Tabung Haji in Malaysia (THM) which began its operation in 1963. This Malaysian bank had a number of aims such as:

1. Enabling the Malay Muslim population to save their money over time in order to be able to fund their travel to the performance of Hajj or Pilgrimage, one of the Pillars of Islam in which Muslims are expected to visit Mecca at least once in their lifetime.
2. Enable the local Malay Muslim population to participate in economic activities that are Shariah compliant.
3. Ensure that the pilgrims who go to Saudi Arabia are looked after during their trip through the affordance of a range of services and facilities to the travelers.

The Tabug Hajji in Malaysia continues to serve pilgrims today. The third phase of the development of Islamic Banking occurred in the 1970s when the Dubai Islamic Bank. This was

then followed by the establishment of the Islamic Development Bank inspired the proliferation of Islamic Financial institutions around the world with about 600 institutions in both Islamic and non-Islamic countries around the world (El-Ashker and Wilson, 2006).

2.3 Development of Islamic Finance in the UK

The majority of the development of Islamic Finance in the UK has occurred over the recent five years, however the presence of Shariah-consistent exchanges in the London financial market dates to the 1980s. The UK was the first non-Muslim country in the world to issue Shari'ah compliant bonds in 2014 and adopted the Al-Ijara Sukuk worth 200 Million for three UK government properties (Alrayanbank.co.uk, 2018). In the five-year period that the bond is maturing, the bondholders own the property and are charging the UK government a 'rent' for its use which amounts to a fixed rate product of some 2.03 percent. At the point at which the bond matures after the five-year period in 2019, the property will pass back to the UK government. These bonds have become hugely popular. Despite the UK government bond being worth 200 Million, it is thought to have attracted orders of up to 2.3 Billion dollars (Alrayanbank.co.uk, 2018).

2.4 Scope of Islamic Banking

According to Mirakhor and Smolo (2014) Islamic Banking generally relations to an institution that mobilizes financial resources with a view to achieving financial objects which are considered to be Islamically acceptable. Islamic Banking includes institutions that have been given the license to operate in a manner that is compliant with the Shariah prohibiting the dealing of interest. These banks do not lend but deal in sales, leasing, loss sharing. The global Islamic banking assets are set to a total of 1.5 trillion in 2015 and continue to experience growth. The assets of these Islamic Bank products are mainly in the Middle East and countries in Asia.

2.5 Shari'ah Compliance Principals

Shari'ah Compliance and Growth of client base in Islamic banks and the prohibition of riba. Riba is the most striking feature of Islamic banking is that, unlike conventional banking, it is totally interest-free (Musa, 2007). Many scholars consider the prohibition of interest as one of the important features of Islamic banking. For instance, the study by Kinyanjui (2013) revealed Islamic banking client base was driven by religious compliance and customers' needs were being met based on the Shari'ah law. The study also revealed that continuous review and improvement of Shari'ah compliant products accompanies by diversifying market niche led to drastic development and marketing of Islamic banking products

Islamic banking is more complex than traditional banking in that products must conform not only to the secular laws of a country but also to interpretations of the Holy Qur'an by local Islamic scholars (Guyo & Adan, 2013). According to Guy and Adan (2013), a central tenet of Sharia is riba, the prohibition of interest, moreover, Islamic law does not permit the use of funds for investments or purchases related to activities it deems impermissible (haram), such as alcohol consumption or gambling. Balancing profitability and religious social responsibility did not strongly influence the customers' choice of their bank (Sheikh et al., 2010). The customers to IB were much influenced by the interest-free nature of the products. The finding by Guy and Adan (2013) further indicates that the Islamic banks approach corporate social responsibility (CSR) exercise, activities which strongly entrenched in the Islam faith did not influence the customers' decisions to choose the IB. Therefore, from the findings, it can be seen that the customers interested in Islamic banks are not influenced by the religious motives but invested basing their decisions on the Shari'ah compliance (laws) principles

The global proliferation of IB significantly changed the banking principles and the borrowing terms of the industry. As IB permit trading activates, it prohibits interest (Ahmad, 2008), since it is based on Shari'ah Law, which bans interest [riba] (Kammer et al., 2015). Further IB prohibits; exploitation of ignorance (jahl) and uncertainty or speculation (gharar). To ensure this IB uses physical tangible assets as the basis for undertaking a business transaction (Honohan, 2001; Aden, 2014), in which case money is not a factor of production. This is to say that according to IB money cannot be used to make money. IB uses Islamic modes such as Murabaha, Salam, Istisna'a, and

Ijarah to provide a link between financial transactions and real economic activities, such as trading with tangible assets (Aden, 2014).

Islamic banks have a shariah board; therefore, the products being offered must be approved by the board (Kadubo, 2010). According to Kadubo (2010), Shari'ah compliance was influenced by both internal and external environments. Internally, a strong and effective effort by Shari'ah board that was running the regulatory framework would yield enticing Islamic compliant products. Such products were Shari'ah compliant and since the clients are driven by Shari'ah compliance products, they are highly attracted. Externally, the Muslim religious leaders played a critical role to woo and encouraging a great number of faithful followers to be clients for Islamic banks. They confirmed to their followers that IB was Shari'ah compliance. Marimuthu et al. (2010) study found that the difference between Islamic banking and conventional banking was based on the Shari'ah requirement. The study found that the relationship between customers and the Islamic bank is different from that of the conventional banks. From the study by Marimuthu et al. (2010), it was clear that the decision to adopt IBs was purely based on the Shari'ah compliance of the IB products.

Belouafi et al. (2011) also investigated the barriers and opportunities facing the presence of Islamic banking and finance in the UK. Aldohni, (2008) on the other hand, focused on the UK prudential banking regulation in paving the way to the Islamic banking operations by investigating the issue of 'how effective has been the UK regulatory body; the FSA in achieving its objectives through the adopted measures?'. Aldohni (2011) has taken the issue further by comparing the approach taken by the UK authorities and that of their Malaysian counterparts in accommodating IF in their respective financial markets.

2.6 Riba (Usury/Interest)

Islamic Shariah forbids the charging of interest known as Riba, it is also referred to as Usury or charging of exploitative high interest. The holy Quran and the Sunna (practice of prophet Muhammed) treat interest as an act of exploitation and injustice of the economically weak by the strong and resourceful. The prohibition of Riba (interest) is meant to guarantee fairness in trade. It is supposed to ensure that people can defend their wealth, by making unjust and unequal exchanges

illegal. Islam wishes to encourage charity and supporting others through kindness. To eliminate sentiments of selfishness and self-centeredness, that may create social antipathy, distrust, and bitterness. With the aid of making *riba* (interest) unlawful, Sharia regulation develops opportunities and environments in which humans are recommended to act charitably by lending money without interest (Kenton, 2018). Under the Islamic Shariah (Law), money is to be understood as only defining the value of something but has no value in itself (Mirakhor and Smolo, 2014), as such, under Islamic finance, money cannot be transacted on its own unless it concerns a tangible good. What this means is that money can be used to purchase a product but it cannot have a value in itself.

2.7 Differences between Islamic Banking and Conventional Banking

The major difference between the conventional financial system and Islamic finance is the way in which risk is shared (Hasan, 2015). According to Islamic finance, if businesses are financed by debt in which the business or the borrower is to pay back the money with interest. This means that the risk that is being taken by the borrower is not being shared equally, it is on this basis that interest is prohibited (Hasan, 2015). Instead, Islamic finance requires that finance is provided on the basis that both profit and loss will be shared fairly through a contractual agreement in which the potential risks are specified between the financier and the borrower.

According to the Branch Manager of Al Rayan Bank, a UK based Islamic Bank, the bank does not operate on risks but on partnership and that once clients invest money with the bank, they are considered partners who share losses as well as profits. Instead of the bank lending money for a mortgage or car loan, the bank purchased the item and resells it to the buyer at a profitable amount in which they pay in installments (Evening Standard, 2018). *Mudarabah* is one such contractual agreement between the parties. It entails an advance agreement on the ways in which profits and losses are to be shared between the entrepreneur and the financier. Under *Mudarabah*, the profit is to be shared as per the ratio that has been predetermined and as such. The amounts of profits that the financier receives fluctuates depending on the profits that a business makes. Under

conventional banking, the party that is borrowing the money has a contractual duty to pay the financier interests on the loan regardless of whether they have made any profits from their business. In Islamic banking, the parties share the profits and the losses and as such, the borrower is protected by the fact that they are not obliged to pay the financier a set amount irrespective of the outcome of the business.

2.8 Risk Management

The finding indicated that the other determinant of the growth of Islamic banking in the UK is the effective management of risks. Bank board reports indicated that Islamic banking focus on transparency structure of banking govern through effective governance and moral values of customers, maintain good customer relationships, focus on fair businesses transactions and deals, deduction and provision of *zakah*, ensure safety and security of banks staff and encouraging research and development reducing losses occurring associated with risks. Further reports indicated that deployment of the contractual approach allows Islamic banks depositors to accept losses or a lower rate of interest when an asset is underperforming, use Mudharaba contract on investment, concentrate on long term assets and use loss loan provisioning reducing losses and improving Islamic bank profitability.

3 METHODOLOGY

Research Methodology is critical in research. According to Kothari (2004) study methodology encompasses certain approaches and procedures deployed in doing a research study. It consists of the procedures, approaches, and methods implemented in the study. This section describes the overall approach that was employed in the study. It describes the research design, and study population, sampling and sampling procedure, data collection method, data collection procedure. It also describes how the collected data was processed, how data was presented and the method of analysis.

3.1 Research design

A research design is a plan on how the study will be executed. This study adopts a descriptive research design. A descriptive survey research design is chosen because it will help in the collection of quantitative and qualitative data to answer the research question or test the research hypothesis. This view is supported by Copper and Schildler (2011) that the descriptive design is appropriate as it enables the gathering to answer study research questions. It allows the use of multifaceted data collection instruments and data analysis techniques in the analysis of the collected data. A descriptive research design is deemed fit in examining factors of growth of Islamic commercial banking in the United Kingdom.

3.2 Research philosophy

A research philosophy deals with the source, nature, and development of expertise and a belief regarding ways in which data about a phenomenon ought to be collected, analyzed and used (Bajpai, 2011). This study adopted positivism philosophy as the study dealt with a view that only factual knowledge is truthful and trustworthy. The philosophy of positivism is chosen as it devised the role of the researcher as limited to the collection of data, analysis and interprets results in an objective way. According to Collins, 2010), the research positivism depends on quantifiable observations that result in statistical analysis. Positivism is also chosen as it supports the collection of data on facts on products, factors that influence the growth of Islamic banking and challenges in the UK. The study will adopt the positivist philosophy based on the fact that in order to empirically establish the relationship between the variables, hypotheses will be formulated and tested and findings generalized.

3.3 Data collection

This thesis has been based on a literature review on Islamic Finance. A number of databases were searched include the Arcada Database, Google Scholars and internet pages for articles that cover the growth of Islamic Finance in the United Kingdom. A number of search terms have been used including: "Islamic Banking" "Islamic Banking in the UK" "Overview of Islamic Banking" "comparisons between Islamic Banking and Conventional Banking". Articles covering Islamic Banking in the United Kingdom and particularly its growth were prioritized. A search on Google Scholar for "Islamic Banking in the United Kingdom" yielded some 7236 articles with Islamic Banking. Those most relevant in relating to the UK were selected from this list. These were narrowed initially to 40 which specifically focused on the United Kingdom. This list was further narrowed down to 20 which pertained to the growth factors.

In terms of the timeline, priority was given to both more recent and articles that were established over several decades. The reason for this was to ensure that changes over time and particularly on the articles that touch on the history of the Islamic Banking were reflected in the discussion. As well as these, articles pertaining to the growth of Islamic Banking in the United Kingdom as well as some of the impediments it faces were of particular importance to the review and were prioritized to reflect on the challenges faced by the sector.

Priority has also been given to academic papers although attempts were also made to include a range of sources for the sake of balance. It has not been possible to conduct primary research on this particular study due to the time and resources it would require conducting research on the ground. This research aims to provide an overview of the Islamic Finance industry in the United Kingdom and available literature was considered to provide a sufficient overview. Data was collected for the period 2007-2018

3.4 Data Analysis

The collected data was analyzed through qualitative analysis and inductive approach. These articles relating to the growth of Islamic Banking in the United Kingdom, as well as some of the products

and impediments it faces were of particular importance to the review and were prioritized to reflect on the challenges faced by the sector. The study used profitability and market shares in measuring the growth of Islamic banks.

3.5 Data Interpretation

The data interpretation will be interpreted using all the information collected. The data gathered from the secondary data will be the leading direction for the interpretation to explain the facts regarding Islamic finance. The author will therefore not limit themselves to a qualitative approach and will furthermore use figures and numbers if necessary.

4 RESULT

This section presents the results of the study. A) The range of Islamic financial products, B) The growth of Islamic finance in the, C) Challenges of Islamic finance in the UK.

4.1 Range of Islamic Finance

4.1.1 Islamic Banking

Innovative products and services of Islamic Banking had been widely reported (Mbawuni & Nimako, 2017). The products include Mudarabah that is Profit and loss sharing. Wadiah refers to as safekeeping, a joint venture (Musharaka), Murabahah that is cost plus, and Ijar (leasing) are product varieties offered in Islamic banking. According to Mirakhor and Smolo (2014), there is no universally accepted definition of Islamic Banking, however, it broadly relates to an institution that mobilizes financial resources with a view of achieving financial objects which are considered to be Islamic acceptable. Islamic Banking includes institutions that have been given the license to operate in a manner that is compliant with the Shariah prohibiting the dealing of interest. These

banks do not lend but deal in sales, leasing, loss sharing. The global Islamic banking assets are set to a total of 1.5 trillion in 2015 and continue to experience growth. The assets of these Islamic Bank products are mainly in the Middle East and countries in Asia.



Figure 1. (Virmati , 2012) The Islamic bank is a mix of commercial bank and investment bank. The banking operations are highly compatible with Islamic norms i.e. Shari`a. Islamic banks operate on the basis of profit and not on paying and receiving interest.

4.1.2 SUKUK

According to Mirakhor and Smolo (2014), a Sukuk is a Shari'ah compliant bond that offers profit at a fixed rate, unlike typical bonds in which the holders are offered a rate of interests over a period of time. Sukuk comes in a range of forms one of which is Al-Ijara. Mirakhor and Smolo (2014) state that Al-Ijara is a version of a lease under the Islamic Finance rules in which an asset's

ownership is transferred to a bondholder and the asset is leased back to the issuer and the bondholder then charges a 'rent' for its use in the period covering the bond and once the bond matures, its ownership is reverted back to the issuer. Some scholars, however, argue that Islamic Finance is not based on a concept of profit and loss sharing despite both Islamic Banks and Sukuk is based on contracts that formally adhere to the teachings of the Shari'ah law. One example given by Mirakhor and Smolo, (2014) is that when Sukuk is bought, the buyer expected a return that is comparable to bonds that bear interests. As well as that, depositors expect their capital to have a certainty that is similar to ones provided by conventional banks and because of that, Islamic finance channels their lending through methods that are Shariah compliant which unlike Mudarabah do not entail the participation of a risky business venture. It is on this basis that some Muslim scholars argue that aspects of Islamic finance are actually not very different from conventional systems.

4.1.3 MURABAHA

Under Islamic Finance, interest is not charged but profit can be made (El-Ashker and Wilson, 2006). A basic transaction entails the supply of goods to a purchaser in which the seller discloses, not only his cost but the profit they are making from it as such allowing the buyer to make an informed decision on how much profit is being made from them (El-Ashker and Wilson, 2006). If at that point they need more time to pay for the product, they can be granted in return for a higher profit margin (El-Ashker and Wilson, 2006). This, according to El-Ashker and Wilson (2006), is one of the ways in which the value of money over time can be covered without necessarily charging interest El-Ashker and Wilson, (2006). There are a range of conditions for a Murabaha transaction: One, the seller must first of all own the good and ensure that they are under their control. Secondly, the good must have a tangible value and free from any uncertainties regarding their quality, their quantity or their dates of delivery. Thirdly, the seller must not take advantage of the buyer in any way including any deliberate misleading or taking of advantage. Fourthly, the delivery of the goods must occur at the point at which the transaction has been concluded and finally, once an agreement has been reached on the sale of the goods, it cannot be changed without the approval of both parties involved in the transaction (El-Ashker and Wilson, 2006). As such, for a transaction to be viable Islamically, the institution lending the money should first of all be in ownership of the goods before

selling it to the clients. This particular aspect of the Murabaha poses a challenge in that some clients may choose to back out of the agreement before the transaction has been completed and it is for this reason that some banks request for a non-refundable fee before going ahead with a purchase.

4.1.4 MUSHARAKA

Musharaka refers to a financing method adopted by Islamic banks. It is an agreement under which the Islamic bank offers funds which are associated with the funds of the business enterprise and others. All the contributors of the capital are entitled to participate in the organization but not necessarily needed to do so. The profit is shared among the partners in predetermined ratios, while the loss is borne by each partner in proportion to the amount invested. (IIBI, 2018)

4.1.5 MUDARABA

Mudaraba refers to a form of business agreement in which one party brings capital and the other provides the expertise. The proportionate share in profit is determined by joint agreement, but the loss if any, is abided only by the owner of the capital, in which case the entrepreneur gets nothing for his labour. As a financing method accepted by Islamic banks, it is a contract in which all the capital is offered by the Islamic bank while the business is run by the other party. The profit is shared in pre-agreed ratios, and loss, if any, unless caused by negligence or abuse of terms of the contract by the entrepreneur is assumed by the Islamic bank. The bank passes on this loss to the investors. (IIBI, 2018)

4.1.6 IJARAH

An Ijara is thought to be the equivalent of a finance lease and requires the existence of a tangible asset that is available for the transaction (Mirakhor and Smolo, 2014). Under this type of arrangement, a financier buys the asset owned by the customer and leases it back to them at a rate that has already been agreed between them which reflects the ways in which the customers use that particular asset. Once the Ijarah contract ends, the asset is sold back to the customer by the Financier for an amount that is equal to the original price of the asset.

4.1.7 ISTINA'

Istina' is a contractual agreement in which one party undertakes the construction or the manufacture of an asset in accordance with agreements that have been reached by the parties including the specification, delivery and price (Mirakhor and Smolo, 2014). This type of agreement is often used in real estate. The contractor, who may also be a customer, undertakes the construction on behalf of the financier who, in return, makes payments in phases. The contractor then delivers the completed asset to the financier who then sells the asset back to the customer who pays the amount that has been paid by the financier in the construction of the project plus a profit margin (Mirakhor and Smolo, 2014). The financier did not directly lend the money to constructor to charge them a profit, they have directly financed the construction and are delivered a completed product that can be sold in accordance with the Islamic Shariah. They sell this to the customer who may be the party that constructed it or not.

4.1.8 TAKAFUL

Takaful is a system that is similar to conventional insurance in which risk is shared transparently through contributions that benefit everyone that subscribes to it Islamic Insurance Association of London (IIAL) was set up in London in 2015. A number of mainstream financial institutions have

moved to provide an insurance system that is Sharia compliant among them Cobalt Insurance, Capita Managing Agency as well as Lloyd's of London (Mirakhor and Smolo, 2014).

4.2 Growth of Islamic Finance in the UK

The United Kingdom is the leading financial market for Islamic finance in the western world. There are numerous explanations for the continued growth in the UK. Following the financial crash, whose effects the global markets are still suffering. It becomes increasingly necessary for financial institutions to find ways to broaden the base of their market. According to Belouafi and Chachi (2014), The Islamic Finance industry is thought to be worth 1.3 trillion US dollars by the end of 2011. It is even expected to grow even further in the coming years.

4.2.1 Product Differentiation

A report from (HSBC, 2012) bank indicated that banks provide different products such as home fund, investment accounts, financing of motors, corporate accounts, asset finance, saving with guarantee interest and mortgage finance to customers attracting a huge number of customers. These increasing bank market share through customer base and increase in assets.

The development of differentiated Islamic banking products has also contributed to the growth of Islamic banking in the UK. The results from empirical analyses indicated Islamic banking institutions and non-shariah compliance banks that offer Islamic window provide Innovative financial products and services to the markets. Product differentiations have enhanced the provision of varieties of Islamic financial products and services to the Muslim and non-Muslim customers in the UK. These products included Mudaraba which is a product that involves profit and loss sharing schemes. Customers are funded to acquire assets and make businesses and share profits or losses with the banks.

The other products offered by both Islamic banking institutions and conventional banks with Islamic windows *Wadiah*, which is a financial service of safekeeping of customer deposits commonly referred to as savings. The results also indicated that through *Musharaka* commonly

refer as a joint venture, Islamic banking institutions form a joint venture with customers and share profits or losses.

Also Islamic banking reports indicated that Islamic banking institutions and conventional banks with Islamic window offer Murabahah that is cost plus products, offer Islamic mortgage products in the UK for purchasing houses and developing real estates in Britain, offer An Ijara to the markers making it leasing easy accessible and affordable to customers, develop and offer to the market Istina a contractual services for customers who enter construction of manufacturing enterprises and offering of Takaful type of conventional insurance products where risks are shared in a transparency approach. This clearly indicates that the development and offering of differentiated Islamic products and services contributed to the increase in the Islamic banking market. Furthermore, there is an increase in Islamic banking networks, increase Islamic banking customer's base that led to an increase in bank assets volume and growth in the profitability level in the UK.

4.2.2 Political Structure

The results revealed that political goodwill and political structure in the UK contribute to the growth of Islamic Banking in the UK. The government and governors of the banking sector in the UK support and embrace the vision of Islamic Banking development in the UK.

The documented report indicated that the government embraces pragmatism, realism and inclusiveness philosophies in banking development. It is an effort to create competitive international Islamic financial banking products and services and to enhance financial inclusion. Where people regardless of their beliefs, religions or traditions have access to competitive financial services and products (Rarick, 2009). This was clearly demonstrated by Former governor of Bank of England George in 2003 who said:

“I became interested in it Islamic Finance more than a decade ago when I met a very lovely, deep, religious, Muslim couple who were living in this country with their family, and who had recently bought a house on the back of a conventional mortgage.”

The support of the government instituting financial regulation through Financial Service Authorities (FSA) and government support for the development of Islamic Banking has contributed to the growth of Islamic banking in the UK. The FSA approval of Islamic banking services and the reduction of financial restrictions create a conducive environment for Islamic Banks offering banking services and products.

4.2.3 The flexibility of the Legal Framework

The information gathered from empirical review indicated that there existed flexible Legal structures. Easing the adoption of the financial regulatory framework on trust law and the application of equity principles. Under British Law makes it easy when dealing with ownership issues that may arise from Islamic banking structures. A further change in taxation regimes that favor the development of Islamic banking has made London competitive. Opening to foreign trading centers by attracting more Islamic banks and Non-conventional banks offering Islamic banking services window. This has contributed to the growth of Islamic banking in the UK (Langa, 2009).

Report from (HSBC,2004) indicated that the Islamic banks offer banking products and services adhering to UK law, financial regulatory framework, legal framework and supervisory regulatory there no restrictions to Islamic banking enterprises. This favorable government support contributes to the provision of Islamic products and services to the Islamic population and non-Islamic customers increasing bank market share, as the bank experience growth in customer base, opening of new branches across the UK yielding to a high profitability level.

4.2.4 Marker Development and Market Demand

Findings from a review of PriceWaterCopper Market (PWC,2013) indicated that the development of Islamic sharia compliance, increasing market, and demand for Islamic products contributed to the growth of Islamic banking in the UK. The (PWC,2013) report indicated that the demand for Islamic financial services has been increasing in the UK market. The growing Muslim population and non-Muslim customers in the UK increasing the bank customer base as well as contributing to the growing market share.

Data from HSBC and Lloyd TSB Bank indicated, that Islamic banks and conventional banks that offer Islamic windows enhance the development of Islamic products to a great extent to meet the market demand. These have increased due to an increase in the Islamic community, improve awareness of Islamic financial services in the UK,

4.2.5 Accessibility to Foreign Exchange Trading

The result from documented reports indicated that London Market is the biggest foreign exchange trading and the largest center for inter-bank trading and lending. The trading in the United Kingdom accounts for approximately 41% of the total western and Europe relative to other countries such as the USA that account for 19%, Singapore 5.7% and Japan 5.6% (gov.uk,2014). The offering of the London Inter-bank offering rate (LIBOR) is an attractive rate that Islamic banks are charged when borrowing from other banks. The results indicated that London is the leading foreign exchange center. London offers flexible financial structures that make it competitive and attract Islamic banking institutions contributing to the growth of Islamic banking in the UK. This was supported by Rodney, former professor of economics at Durham University who opined that;

“The UK has been a gateway for Islamic Finance to enter Europe. Partly reflecting the role of London as the leading international financial center, but also as a consequence of the exposure of leading British banks to the Arab and wider Islamic World and their knowledge of these markets”

4.2.6 Involvement of Muslim Community Organization in the UK

The other determinant that contributed to the growth of Islamic banking in the UK is the involvement of the Muslim community organizations. The Islamic Economic Foundation that improves the relationship between the Muslim community, banking management, and the government. This resulted in good relationships with the government bodies such as FSA, treasury, trade and industry and the (CityUK,2013). This resulted in the amendment of tax regimes for Islamic banking services, increase awareness of Islamic banking products and services through participation in international events. Events like the British delegate in the 5th WIFE and participating in the 9th WIFE, organize public lectures, offer training on Islamic finance and organize symposia as well as holding political and business meetings. The results have been increasing in customer base for the Islamic banking, an increase in promotion of Islamic banking product that led to an uptake of the products and services leading to the growth of the Islamic Banking.

4.2.7 Increase in Investment

On whether Islamic banking promotes investment in the UK economy, all the bank management indicated that Islamic banking contributes to economic growth through improvement and expansion of the investment portfolio. The information collected from documented reports revealed that Islamic banking and conventional banking institutions with Islamic segment or window enhance investment through financing real estates, provision of insurance services, financing transport enterprises without interest charges on loans. Many customers and non-customers of Islamic financial products and services invest in income generating enterprises without fear of loss as no interest is charged on capital borrowed and banks provide profit and loss sharing structures. These factors, as well as a growth experienced by Islamic factors which took advantage of the conducive business environment in the United Kingdom, spurred its growth in the country. (Ehsan, 2014)

4.3 Challenges of Islamic Finance in the UK

The government of Qatar has in 2011 issued a ban on "Islamic Windows" which essentially involves mainstream financial organizations to offer Islamic products alongside their conventional ones allowing them to exploit different market segments. There have been concerns over the governance and the regulatory issues in Islamic banking may not be fully developed in many countries and as such, the entry of mainstream banks may have a long-term impact on the entire Islamic finance as an industry (Azmat, Skully and Brown, 2015). As a result, Azmat et al. state that some governments in the Gulf and wider Middle East are thought to be preparing to review the practice of "Islamic Windows" with Qatar banning it out rightly.

4.4 Drawbacks of Islamic Banking

Islamic Banking, according to (Rarick,2009) requires additional supervision in the form of a supervisory committee that is constantly assessing whether the financial products offered by a bank are indeed shariah compliant and that none of the transactions breach the Islamic Shari'ah. Organizations such as the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) have been established to offer guidelines and set acceptable standards for compliance of the Shariah globally. Another drawback is that there is no set standard in the interpretation of the Islamic Shariah and as such, Muslim scholars from different Islamic Sects give rulings that are at times contradicting making aspects that are considered Shari'ah compliant in one school of thought not compliant in another as such, it has no uniform regulation globally (Bello, Hasan, and Saiti, 2017)

A third difficulty is the shortage of Islamic Shari'ah scholars which at times means that individuals end up holding positions in various companies as well as committees that supervise Shariah resulting in issues of conflict of interest that not only undermine the credibility of the system but also its reputation (Bello, Hasan, and Saiti, 2017). These factors impede the growth of Islamic finance. Financial products like the Murabaha is that the rates are fixed at the beginning and usually on an average of five years, as such, banks face the risk of an increase in the interest rates. (Bello,

Hasan, and Saiti, 2017). In Addition, Murabaha cannot be immediately turned into cash in case of a crisis.

Fourthly, financial institutions that are involved in mainstream lending, as well as the Shari'ah based lending, require different procedures for their compliance as well as the maintenance of a Shari'ah board that is to supervise and ensure that its products are compliant, as such, it is just more costly to run a Shari'ah compliant financial products (Ehsan, 2014). Because Islamic financial institutions ban the participation of industries such as those in pornography, alcohol, and Tobacco, Conventional banks that have Islamic financial products need to separate these funds through accurate record keeping ensuring that they do not mix and this can be burdensome both financially and administratively (Bello, Hasan, and Saiti, 2017).

5 DISCUSSION

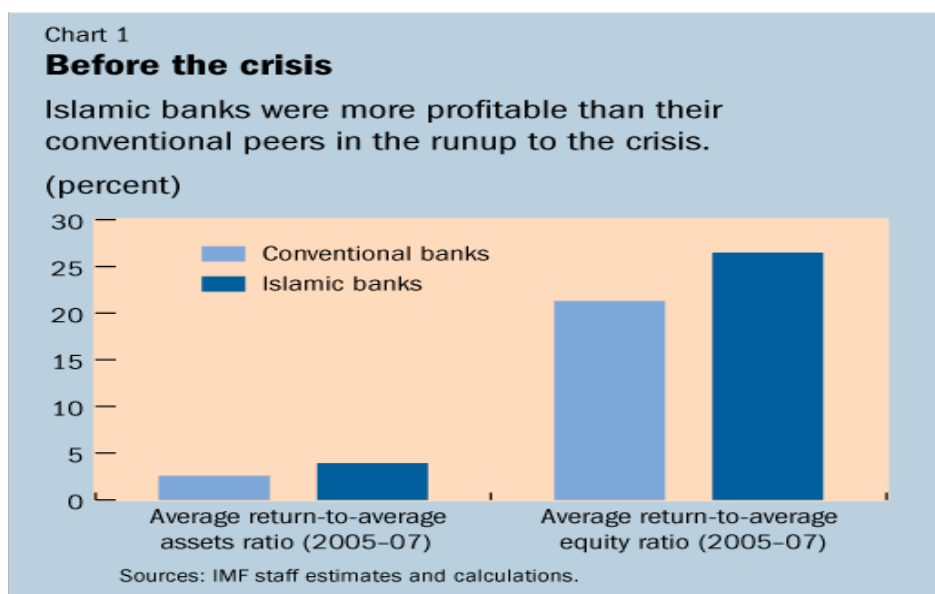


Figure 2. (IMF, 2010) Crisis impact, the data covers from 2007 – 2010 for 120 Islamic banks and conventional banks in eight countries.

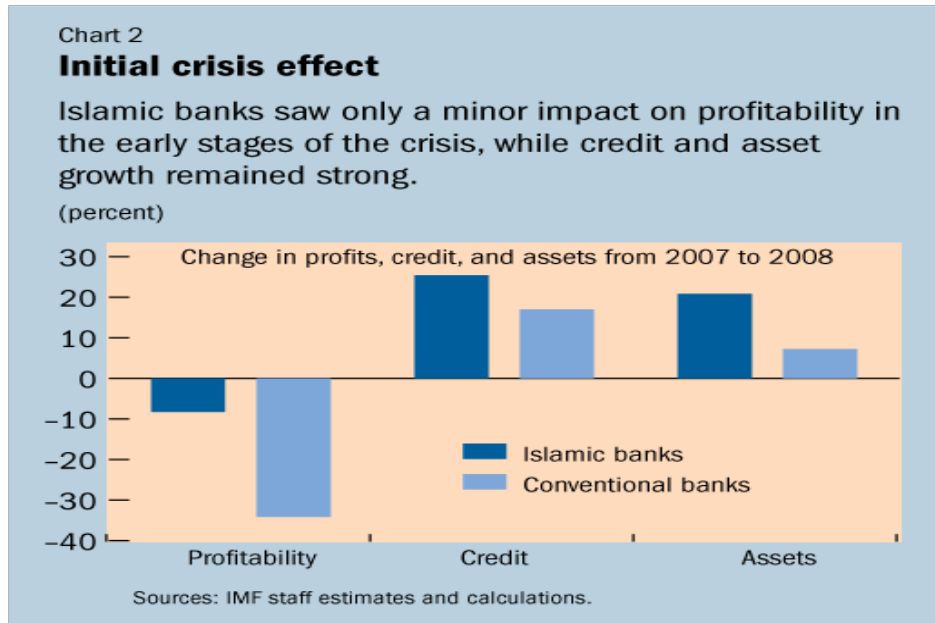


Figure 3, (IMF, 2010) The next year, it displayed weakness in risk management practices in some Islamic banks and similarly decline in profitability.

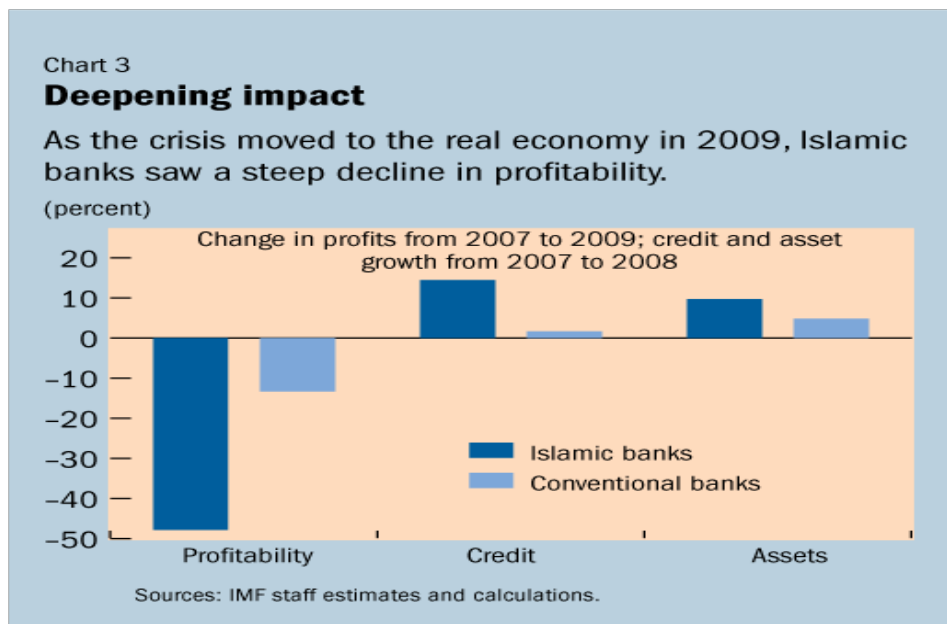


Figure 4, (IMF, 2010) In the figure above it indicates a change in profit from 2007 to 2009 on credit and assets growth from 2007 to 2008. It also shows that Islamic banks contributed to financial and economic stability during the crisis, that their credit and asset growth was at least double as high as that of conventional banks.

The results established that offering of different financial products and services such as home fund, investment accounts, financing of motors, corporate accounts, asset finance, and saving with guarantee interest and mortgage finance to customers attracting a huge number of customers and increasing bank market share through customer base and increase in assets. Islamic banks and those that offer Islamic windows provide innovative products such as Mudaraba, which is a product that involves profit and loss sharing schemes *Wadiah*. *Musharaka* commonly refers as a joint venture. Murabahah that is cost plus products, offer Islamic mortgage products, An Ijara to the markers making it lease easy accessible and affordable to customers. Istina is a contractual service and the offering of Takaful is a type of conventional insurance products resulting in an increase in Islamic banking market share. Increase Islamic banking networks, increase Islamic banking customer's base that led to an increase in bank assets volume and growth in the profitability level in the UK.

The other significant determinant of the growth of Islamic banking is a good political structure that focuses on embraces pragmatism, realism and inclusiveness philosophies in the UK. All these features provided supports and embrace the vision of Islamic Banking development in the UK. The conducive environment created by the support of the government instituting financial regulation through Financial Service Authorities (FSA) and the government support for the development of Islamic Banking, FSA approval of the Islamic banking services and reduction of financial restrictions promoted the growth of Islamic Banks offering banking services and products.

The flexibility of Legal structures and ease of adoption of the financial regulatory framework on trust law and application of equity principles. The British Law which supports dealing with ownership issues, changes in taxation regimes that favor the development of Islamic banking. It has made London competitive foreign trading center attracting more Islamic banks and Non-conventional banks offering Islamic banking services window, these element likewise contributed to the growth of Islamic banking in the UK.

Conducive environment for Islamic banking promotes the provision of banking products and services adhering to UK law, financial regulatory framework, legal framework and supervisory regulatory there no restrictions to Islamic banking enterprises. The favorable government support contributes to the provision of Islamic products and service to the Islamic population and non-

Islamic customers increasing bank market share. As the bank experience growth in customer base, opening of new branches across the UK yielding to a high profitability level.

Market increase of development of Islamic sharia compliance, financial products and increasing market demand for Islamic banking products contributed to the growth of Islamic banking in the UK. The PWC report (PWC, 2013) indicated that the demand for Islamic financial services has been increasing in the UK market, this is due to the growing Muslim populace and non-Muslim customers in the UK increasing the bank customer base as well as contributing to the growing market share.

Accessibility of foreign exchange trading in London by Islamic banks fosters earning of foreign earnings. The offering of flexible financial structures also made the banks achieve competitiveness and attracting Islamic banking institutions contributing to the growth of Islamic banking in the UK.

The study revealed that the involvement of the Islamic community organizations such as the Islamic Economic Foundation improved the relationship between the Islamic communities. Further factors include banking management, and the government promoted good relationships with the government bodies such as FSA, treasury, trade and industry and the (CityUK, 2013). This contributed to the amendment of tax regimes for Islamic banking services, increase awareness of Islamic banking products and services through participation in international events, it results into increase in customer base for the Islamic banking increase in promotion of Islamic banking product that led to an uptake of the products and services leading to the growth of the IB.

Islamic banking promotes investment in the UK economy through financing in real estates, provision of insurance services, financing transport enterprises without interest charges on loans and encourages investment in income generating enterprises without fear of loss as the banks deploy profit and loss sharing structures.

Effective management of risks through deployment of transparency structure of banking governance and moral values of customers, fostering good customer relationships. Other focuses are on fair business transactions and deals, deduction and provision of *zakah*, ensure the safety and security of banks staff and the use of contractual approach allowing Islamic banks depositors to accept losses or a lower rate of interest when the asset is underperforming. Furthermore, the use

of Mudharaba contract on investment, concentrate on long term assets and use loss loan provisioning reducing losses and improving Islamic banking growth indicated by increasing trends of IBs profitability level.

6 CONCLUSION

This section presents the conclusion of the findings. The objective was to identify Islamic Finance in the United Kingdom.

In conclusion, Islamic Finance has grown exceptionally in the UK over the past decades attributed to various factors. The existence of an effective political structure and regulatory framework has been acknowledged as the most contributing factor to the growth of Islamic banking in the UK. A significant characteristic of political factors is that it contributed to supportive government policies that broaden the market for Islamic products. The sharia compliance, and banking institutions with Islamic window or segment.

The study concluded that provision of varieties of differentiated Islamic banking and finance products such as home fund, investment accounts, financing of motors, corporate accounts, asset finance, and saving with guarantee interest and mortgage finance to customers attracting a huge number of customers and increasing bank market share through customer base and increase in assets.

In conclusion, the conducive environment created by the support of the government instituting financial regulation through Financial Service Authorities (FSA) and the government support for the development of Islamic Banking, FSA approval of the Islamic banking services and reduction of financial restrictions and political systems promote the growth of Islamic Banks offering banking services and products.

From the results, the study concluded that market development of Islamic sharia compliance, financial products and increasing market demand for Islamic banking products contributed to the growth of Islamic banking in the UK. The increase in Muslim populace and non-Muslim customers

in the UK increase uptake of Islamic banking products bank customer base as well as contributing to the growing market share.

Accessibility of foreign exchange trading in London by Islamic banks fosters earning of foreign earnings. The offering of flexible financial structures made the banks achieve competitiveness and attracting Islamic banking institutions contributing to the growth of Islamic banking in the UK.

Increase awareness of Islamic banking products and services through marketing and participation in international events resulting into increase in customer base for the Islamic banking increase in promotion of Islamic banking product that led to an uptake of the products and services leading to the growth of the IB. Effective management of risks through deployment of transparency structure of banking governance and moral values of customers. It also fosters good customer relationships, focuses on fair business transactions and deals, deduction and provision of *zakah*, and ensures the safety and security of bank staff. The used of contractual approach allowing Islamic banks depositors to accept losses or a lower rate of interest when the asset is underperforming. The Mudharaba contract on investment, concentrate on long term assets and use loss loan provisioning reducing losses and improving Islamic banking growth indicated by increasing trends of IBs profitability level.

Finally, the study concluded with a few examples of Islamic banking and finance face in the UK. Islamic banking requires additional supervision in the form of a supervisory committee that is constantly assessing whether the financial products offered by a bank are indeed shariah compliant. That none of the transactions breach the Islamic Shari'ah. There have been concerns over the governance and the regulatory issues in Islamic banking. The concern is that it may not be fully developed in many countries. Therefore, the entry of mainstream banks may have a long-term impact on the entire Islamic finance as an industry

6.1 LIMITATION

In conducting the study, the researcher encountered a number of limitations. One of the challenges was inadequacy accessibility of data information. This study was dependent on financial statements and annual reports from Islamic banks but some were accessible. However, the researcher uses available data to achieve the objective of the study.

The additional limitation was the inability to include more commercial banks. This study concentrated only on Islamic commercial banks and conventional banks offering Islamic windows. Therefore, the finding could not be generalized to all commercial banks in the UK

6.2 SUGGESTIONS FOR FURTHER RESEARCH

This study described the Islamic financial market in the United Kingdom. This study suggests other studies to be carried out to determine the challenges facing Islamic banking in the United Kingdom. This would contribute to the development of measures that would foster Islamic finance and banking to promote the development of the UK economy

A further study ought to be carried out to identify factors that influence the growth of Islamic banking in other western countries such as Germany, Japan and the United State of America.

The study also recommends that further study should be carried out to examine the financial risk management practices adopted by Islamic banking institutions in the UK. This would provide the Islamic banking institution management with insight on effective financial management practices that could mitigate the occurrence of risks and contribute to the growth of Islamic banking in the UK.

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