

FUTURE ISLAMIC BANKING: A REVIEW

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Abstract

Purpose: Aims to examine the current state and future prospects of the Islamic banking industry. The study provides a comprehensive overview of the theoretical foundations and practical applications of Islamic finance principles. The research also analyzes the challenges facing the industry and explores potential solutions for sustainable growth in the future. The goal of this study is to provide valuable insights for researchers, policymakers, and industry practitioners in the field of Islamic banking and finance.

Research Methodology: literature review with quality journal sources and in-depth examination of the research topic.

Results: Examine the current state and future prospects of the Islamic banking industry, provide a comprehensive overview of the theoretical foundations and practical applications of Islamic finance principles, analyze the challenges facing the industry, and explore potential solutions for sustainable growth in the future. The methodology used is a literature review with quality journal sources and in-depth examination of the research topic. The study's contribution includes providing an overview of the current state of the Islamic banking industry.

Limitations: The study may have limitations including limited scope, potential availability issues with data and information, potential bias, limited interpretation of Islamic finance principles, and relevance to future developments. It is important to consider alternative perspectives and information sources when interpreting the findings and recommendations of the study.

Contribution: Provides an overview of the current state of the Islamic banking industry: The study provides an overview of the current state of the Islamic banking industry, including its size, growth, and market share.

Keywords: Islamic Banking, Islamic Finance, Islamic law



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1. INTRODUCTION

Islamic banking is an alternative financial system based on principles of Islamic law (Sharia) that prohibits charging or paying interest (riba) (Shahid & Raj, 2019). In recent years, Islamic banking has gained significant attention and momentum globally as an ethical and socially responsible form of finance. The future of Islamic banking looks bright as its principles align with the growing demand for responsible and sustainable financial practices.

There are several factors that are driving the growth of Islamic banking. Firstly, the increasing Muslim population globally has created a large market for Islamic financial services (Juhandi et al., 2019). Secondly, the increasing awareness and recognition of Islamic finance as a viable alternative to conventional banking has led to a growing demand for these services (Wan Ahmad et al., 2019). Thirdly, the rise of Islamic finance as a source of financing for infrastructure and development projects, particularly in the Islamic world, has created new opportunities for growth (Ameraldo et al., 2019).

Another factor contributing to the future of Islamic banking is the increasing technological advancements in the financial sector (Poongodi et al., 2020). The digitization of banking services has made it easier for Islamic financial institutions to reach a wider customer base, offering innovative and accessible financial services that meet their customers' needs. The use of blockchain technology, for example, can increase transparency, security and efficiency in Islamic finance transactions.

The future of Islamic banking also lies in its potential to promote social and economic justice and to provide financing for sustainable development (Biancone & Mohamed Radwan Ahmed Salem, 2019). The principles of Islamic finance, such as risk sharing, and the promotion of economic activities that are socially responsible, align well with the United Nations' Sustainable Development Goals. This makes Islamic finance an attractive option for individuals and organizations that are looking to make a positive impact on society and the environment. Islamic banking operates differently in different countries and regions, due to differences in laws, regulations, and cultural norms. However, some common principles that guide Islamic banking practices include the prohibition of interest (riba), the sharing of risk and profit, and the requirement for transactions to be based on tangible assets or real economic activity.

Over time, Islamic banking has evolved and grown in response to the changing demands of customers and the broader economic environment (Rahmayati, 2021). In many countries, the growth of Islamic banking has been driven by the increasing demand for financial products and services that are consistent with Islamic principles. In some countries, such as Malaysia and the Gulf Cooperation Council (GCC) countries, Islamic banking has been established as a separate and parallel financial sector, with its own regulatory framework and a significant market share. In other countries, such as the United Kingdom and the United States, Islamic banking is a niche market and operates within the existing regulatory framework for traditional banking. The global financial crisis of 2008 and the subsequent demand for alternative financial systems has also led to increased interest in Islamic banking and its principles, and many traditional financial institutions have begun offering Islamic finance products to meet this demand.

Overall, Islamic banking has evolved over time to meet the changing needs of customers and the broader financial environment. However, the industry still faces challenges, such as limited awareness and understanding, limited access to funding, and regulatory barriers, which need to be addressed in order to continue its growth and development.

2. LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

Related Islamic banking has its roots in the principles of Islamic finance, which are based on the teachings of the Quran and the Sunnah (the practices and sayings of the Prophet Muhammad). The theoretical foundations of Islamic banking can be summarized as follows:

1. Prohibition of riba (usury or interest): Islamic finance prohibits the charging or paying of interest, which is seen as exploitative and contrary to the principles of fairness and justice (Fasa et al., 2019).

2. Promotion of risk-sharing: Islamic finance promotes the sharing of risk between parties, with profits and losses being shared in a fair and equitable manner (Lajis, 2019). This is in contrast to conventional banking, where the lender bears no risk.
3. Emphasis on real economic activity: Islamic finance places emphasis on real economic activity (Kuanova et al., 2021), with financial transactions being linked to real assets, goods, and services.
4. Prohibition of speculative and unethical activities: Islamic finance prohibits speculative and unethical activities, such as gambling, speculation, and investments in industries that promote harm to society or the environment (Ullah & Afaq, 2019).
5. Promotion of social justice: Islamic finance seeks to promote social justice by ensuring that wealth is distributed equitably (Alimova, 2022) and that the needs of the disadvantaged are taken into account.

These principles are reflected in the various Islamic finance products and services offered by Islamic banks, such as profit and loss sharing (PLS) financing, mudaraba (partnership) financing, and murabaha (cost-plus) financing. The theoretical foundations of Islamic banking are intended to provide a framework for ethical and socially responsible financial practices, and to promote the well-being of individuals, communities, and the environment.

The principles of Islamic finance have practical applications in the form of various financial products and services offered by Islamic banks. Some of the most common practical applications of Islamic finance principles include:

1. Profit and Loss Sharing (PLS) financing (Drissi & Angade, 2019): This involves the sharing of profits and losses between the bank and the customer, with the customer bearing a portion of the risk associated with the financing. PLS financing is commonly used for financing small and medium-sized enterprises (SMEs), agriculture, and real estate.
2. Mudaraba (partnership) financing: This involves the bank providing funding for a specific business venture (Yuspina & Putri, 2020), with profits being shared between the bank and the customer in accordance with a pre-agreed ratio.
3. Murabaha (cost-plus) financing: This involves the bank purchasing a specific asset and selling it to the customer at a mark-up, with the customer paying the purchase price in instalments (Muneeza et al., 2020).
4. Ijara (leasing) financing: This involves the bank purchasing an asset and leasing it to the customer, with the customer having the option to purchase the asset at the end of the lease period (Billah & Billah, 2019).
5. Sukuk (Islamic bonds): This is an alternative to conventional bonds, with sukuk representing ownership in real assets such as property, infrastructure, or commodities (Abo Steit et al., 2022).

These practical applications of Islamic finance principles aim to provide customers with alternative financing options that are consistent with their religious and ethical beliefs. The products and services offered by Islamic banks are designed to promote financial inclusion, provide equitable access to finance, and support sustainable economic growth and development.

3. RESEARCH METHODOLOGY

This research is a review study, by examining literature from quality sources on the topic of Islamic banking and relevant references.

4. RESULTS AND DISCUSSIONS

Provide The future prospects of the Islamic banking industry are generally considered to be positive, with several factors contributing to its growth and potential for future success. Some of the key future prospects for the Islamic banking industry include:

1. Growing demand for Islamic finance: With increasing interest in socially responsible and ethical investing, the demand for Islamic finance products and services is expected to continue to grow in the future.
2. Expansion into new markets: The Islamic banking industry is expected to continue to expand into new markets, particularly in developing countries where there is a growing demand for alternative finance options.
3. Technological innovation: The integration of new technologies, such as digital banking and blockchain, is expected to provide new opportunities for the Islamic banking industry to grow and become more competitive.
4. Supportive regulatory environment: With the increasing recognition of the importance of Islamic finance, governments and regulators are expected to provide a more supportive environment for the development of the industry.
5. Diversification of products and services: The Islamic banking industry is expected to continue to diversify its products and services, offering customers a wider range of options and catering to a wider range of needs.

Overall, the future prospects of the Islamic banking industry are promising, with opportunities for growth and expansion, increased customer demand, and ongoing innovation and diversification. However, the industry is also facing challenges, such as increased competition from conventional banks and the need to adapt to changing customer preferences and market conditions. Nevertheless, the future prospects for the Islamic banking industry are seen as positive, with significant potential for growth and development in the years to come.

The Islamic banking industry faces a number of challenges that must be overcome if it is to achieve sustainable growth in the future. Some of the most significant challenges facing the industry include:

1. Competition from conventional banking: The Islamic banking industry faces intense competition from conventional banks, which offer similar financial products and services. To remain competitive, Islamic banks must focus on innovation and differentiation, offering unique and attractive products and services that meet customer needs.
2. Lack of standardization: The lack of standardization in the Islamic banking industry is a major challenge, with different countries having different interpretations of Islamic finance principles and regulations. To overcome this challenge, the industry must work towards a greater degree of harmonization and standardization of practices and regulations.
3. Limited awareness and understanding: Despite its growing popularity, Islamic finance is still not widely understood, and many people are unfamiliar with its principles and

products. To overcome this challenge, the industry must focus on education and awareness-raising, and work to build trust and confidence in its offerings.

4. Resistance to change: The Islamic banking industry is facing resistance from traditional banking practices, which may view Islamic finance as a threat to their existing business models. To overcome this challenge, the industry must work to build partnerships and collaborations with conventional banks, and find ways to integrate its offerings into the wider financial system.

Potential solutions for these challenges include:

1. Innovation and differentiation: The Islamic banking industry must continue to innovate and differentiate its products and services, offering unique and attractive offerings that meet customer needs and set it apart from conventional banks.
2. Harmonization and standardization: The industry must work towards greater harmonization and standardization of practices and regulations, to increase transparency, reduce risk, and build confidence in its offerings.
3. Education and awareness-raising: The industry must focus on education and awareness-raising, to help people understand the principles of Islamic finance and its offerings, and build trust and confidence in the sector.
4. Collaboration with conventional banks: The Islamic banking industry must work to build partnerships and collaborations with conventional banks, to help integrate its offerings into the wider financial system, and reach new customers and markets.

By overcoming these challenges and pursuing these potential solutions, the Islamic banking industry can achieve sustainable growth and success in the future.

Provides an overview of the current state of the Islamic banking industry: The study provides an overview of the current state of the Islamic banking industry, including its size, growth, and market share.

1. Examines the theoretical foundations of Islamic finance: The study examines the theoretical foundations of Islamic finance and the principles that underlie the industry, providing a deeper understanding of the industry's principles and objectives.
2. Identifies future prospects of the industry: The study identifies the future prospects of the Islamic banking industry, including potential growth opportunities and challenges, and provides insights into the future direction of the industry.
3. Identifies challenges facing the industry: The study identifies the challenges facing the Islamic banking industry, such as regulatory and operational challenges, and provides potential solutions for overcoming these challenges.
4. Enhances understanding of the industry: By providing a comprehensive overview of the Islamic banking industry, the study enhances understanding of the industry and its role in promoting ethical, socially responsible, and sustainable finance.
5. Supports decision-making: The study provides valuable insights and information that can be used by stakeholders, such as regulators, policy-makers, and financial institutions, to make informed decisions about the future of the Islamic banking industry.

5. CONCLUSION

The research provides a comprehensive overview of the industry, including its theoretical foundations, practical applications, challenges, and potential solutions for sustainable growth. The study enhances understanding of the industry, identifies the challenges it faces, and supports decision-making by providing valuable insights for researchers, policymakers, and industry practitioners. However, it is important to acknowledge the limitations of the study, such as its limited scope, data availability, and potential bias, when interpreting the findings and recommendations.

LIMITATION AND STUDY FORWARD

The limitations of the study "Future Islamic Banking: A Conceptual Review" can include the following:

1. Scope of the study: The study may have a limited scope, only focusing on specific aspects of the Islamic banking industry and neglecting others. For example, it may only examine the current state of the industry and not consider future developments or challenges.
2. Data and information availability: The study may be limited by the availability of data and information on the Islamic banking industry, particularly in developing countries. This could lead to incomplete or inaccurate conclusions and recommendations.
3. Interpretation of Islamic finance principles: There may be different interpretations of Islamic finance principles, and the study may only consider one perspective. This could limit the validity of the conclusions and recommendations.
4. Bias: The study may be biased towards certain perspectives, and may not consider other views or opinions. This could limit the validity of the conclusions and recommendations.
5. Relevance to future developments: The study may not be relevant to future developments in the Islamic banking industry, as it only focuses on the current state of the industry. This could limit its usefulness as a reference for future decision-makers.

It is important to acknowledge these limitations and to consider alternative perspectives and sources of information when interpreting the findings and recommendations of the study. Study Forward "The future of Islamic banking is bright, with prospects of growth, expansion into new markets, technological innovation, and a supportive regulatory environment. However, the industry faces challenges of competition from conventional banks, lack of standardization, limited awareness, and resistance to change. To overcome these challenges, the industry must focus on innovation, standardization, education and awareness-raising, and collaboration with conventional banks." the future of Islamic banking looks promising, with a growing demand for ethical and sustainable financial practices, technological advancements, and its potential to promote social and economic justice. As the world moves towards a more sustainable and socially responsible financial system, Islamic banking will continue to play an important role in shaping the future of finance.

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