*Irina Grimarenko**

Comparative study of Islamic and traditional western banking

Islamic financial model is successfully realised by many companies in different countries either in Islamic or in secular countries. Islamic banks are attracting the customers by offering ethic norms together with profit and risk sharing. Thank to this principal the Islamic banks could survive the Global Financial Crisis of 2008–2011 and make proof of the high efficiency. Islamic financial model in not only interesting as an alternative banking method but also as a product demanded beyond the Islamic world. Willing to boost their positions in times of crisis the western banks are differentiating the products and the services. Some European and American banks start opening special offices so called Islamic windows offering financial services according to the Sharia law.

It is important to note that in Muslim countries Islamic banking is developing with support of the local government while in non- Muslim countries the foundation of Islamic institutions caused by the market demand. Still the Islamic banking remains too much specific and unknown. Giving Islamophobia, which is popular nowadays especially after the terrorist attacks of September 11, 2001, there are some ideas about the relationships between Islamic banks and terrorist organisations.

1. Historical aspect of comparative study

It is necessary to review the evolution of international banking system to evaluate Islamic finance phenomenon. The traditional banking system appeared in Christian countries of medieval Europe. In XVI–XVII centuries the Guilds of tradesmen from Venice, Amsterdam, Hamburg founded special girobanks to ensure cashless transactions between their customers. The banks of modern concept appeared after the industrial revolution in Europe. It is significant that the usury is prohibited by the Christian religion: «But love your enemies, and do good, and lend, expecting nothing in return» (Luke 6:34–35). Thomas Aquinas, famous theologian of the Middle Ages, called the interest for sale unnatural.

However the evolution of the trade and the reformation resulted in legalizing creditor's right to having income from money. In 1836 the Holy office of the Inquisition issued a decree specifying collection of interest. Since that time the usury is specified as the collection of an exorbitant interest rate and taking interest as the right to a legal interest rate.

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* Irina Grimarenko, Oriental University, secondary higher education

As a result Protestant England became “the workshop of the world” and the English scientist Adam Smith became known as “the father of economics”. In the modern economic community over 400 among 500 leading companies are located in the US, Great Britain, Germany, mostly in the countries of Protestant religion. In the opinion of most of the scientists, Protestantism created Capitalism as a social structure.

Nowadays the banks are representing the institutions that process the operations related to loan transfers, mobilisation, and distribution. The income of the bankers is the banking profit or the interest. Traditional banking activity is never more associated with the religious doctrine. Banking activity is particularly regulated by the norms of national legislation, a number of international conventions, unified resolutions of the International Chamber of Commerce (ICC), and International Monetary Fund Organization Chart.

Nevertheless there is another type of banking model based on religious principles of Islam. The financial operations like currency exchange, money transfers, and cheque treatment exist since the beginning of Islamic civilization. Under the colonial domination the Muslim countries accepted western banking model and the development of Islamic banking that appeared at earlier Islamic period was over. The core changes occurred only in the early 20th century. At that time 1/5 of world population were practicing Islam. All the Islamic countries had developing economies marked by the high level of social stratification where the majority was presented by the poor. On the on hand western banking model did not succeed to gain loyalty neither of Muslim businessmen nor citizens. On the other hand capital accumulation was not only possible due to low income of the majority population but was also regarded negatively according to the Islamic ethics. Nevertheless the savings for a rainy day, which even the poorest tries to make, were estimated about hundreds of billions of dollars. Willing to involve these financial resources to the economic turnover the Islamic academic economists suggested to establish a new financial system answering to Islamic norms. The real Islamic banks offering a full range of services based on Sharia law started to appear in the 70th within the context of Arabic consciousness raising, petrol caused wealth accumulation in the Gulf monarchies of Arabian Peninsula, Islamic revolution in Iran, modernization and Islamisation of economics in several countries of Asia and Africa.

The new financial institutions differ fundamentally from the classic banks in organization structure and transaction type because all their operations are interest free. Creation of Islamic banks is based on the second surah of the Quran “Cow” where is specified that Allah declares war against those who take riba or interest charge (Quran 2: 278–279).

Islamic financial system consists of the following institutes (IFIs):

1. Islamic banks: Central bank, commercial banks and Islamic windows in classic western banks.
2. Islamic financial institutes other than banks:

leasing and factoring companies, housing associations, private venture capital funds, institutions related to religious rites and charity.

3. Islamic insurance: takaful.
4. Islamic capital market ant its players.
5. Islamic financial infrastructure represented by payment system, screening system, Internet business, accounting control authorities, rating agency, education and research institutes.

2. Difference in tools used in Islamic and western banking

It is evident that IFIs has succeeded to grow from a humble concept to serious financial institutions and gain much attention of international financial community. Islamic banking processes are the same typical transactions of western banking. In other words, Islamic banks raise funds from the individuals and legal entities and transfer them to the companies suffering from lack of external investments. A main difference between Islamic and western banking consists in their ways to process the transactions. In Islamic banking either credits or deposit are interest-free. It resembles mostly project financing related to risk sharing and partnership basis. An Islamic bank is not able to hedge the investments and has to share the losses on the project together with the credit users. An Islamic bank examines properly its potential client, analyses its business plan because the bank is as much interested in the project success as his client. On the whole Islamic banking is oriented to real production not to speculative operations.

According to the norms of the Muslim law specified in the Quran and the Sunna there is a number of religious prohibitions (haram) regulating economic social activity:

1. Riba (Arabic “increase”) is interest rate prohibition and usury prohibition in general: interest for loans, bonds, deposits of fixed interest rate. There is no formal distinction between the usury and the interest rate in Islam. Both terms are called “riba” and prohibited by the Quran: “But Allah has permitted trade and has forbidden interest” (2:275). Money cannot be subject to delayed transaction or trading. Finally for IFIs the interest rate prohibition results in alternative profit generating: joint venture in which both parties share profit and loss made from the investment or resale at cost plus an agreed profit margin.

2. Gharar (Arabic «uncertainty») is an excessive risk prohibition and also uncertainty in the contract involving big losses. It refers to financial derivatives like forwards, futures, swaps and classic insurance. Gharar is considered as information asymmetry when one part of contract is better informed and can consequently benefit from the other part’s losses caused by lack of information or under conditions of uncertainly. So the Muslim law disapproves having one-sided advantages at the expense of another person (Quran 4:29–30).

3. Maysir (Arabic “gambling”) is a speculation prohibition, taking advantages of the situation namely gambling, betting, classic insurance. The Islamic Banks are not authorized to participate to the lottery and the similar activities.

4. Halal is a prohibition to invest into the production and the consummation of products considered unclean by Islam: pork, alcohol, tobacco, weapons and criminal

business like prostitution, pornography, drug trafficking, sorcery, etc. (Quran 2:188, 3:130, 5:42, 90)

The problem is that among the Muslim legal experts there is no standard definition of the key principles. That's why the operation mode of one bank can be different from another. For instance riba has a number of definitions. Seeking to adapt the Islamic concept to western economic model, Modern Islamic ethical thinkers suggest to divide riba into interest and usury. In this case they specify that the Quran forbids only the usury but not the interest. The interest is considered legal when it is used by the government to create an accumulation fund, punish the debtors and support government budgeting. Indexing as a protection against the inflation is always acceptable. Conservative thinkers disapprove any form of increase of the loan sum. In Islam it is considered unjust when the borrower has to pay the interest rate whether he made profit on capital or not. However the lender always has a guaranteed profit regardless his efforts.

As it was mentioned above the key principal of Islamic banking is operating with the customers on interest-free and real partnership basis. For this purpose Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) is developing standards for Islamic financial products and then a specialized structural unit of any Islamic bank (Sharia board) helps to coordinate the banking activity in accordance with the Muslim laws. The majority of Islamic banking transactions have analogues in western banking [3]:

Table 1

Typical Islamic banking products and their western analogues

AAOIFI standards	Analogues in western banking
Musharaka	Joint venture
Mudaraba	Trust financing
Murabaha	Resale at cost plus an agreed profit margin
Ijarah	Leasing
Istisna	Futures
Sukuk	Bonds
Qard al-hasan	Interest free financing (has no analogue)
Zakat	Voluntary tax (has no analogue)

The operation mode of Islamic financial instruments will be considered here below in comparison with classic banking services.

Musharaka: joint venture contract between the bank and the customer where one part of profit generated by the business activity is reserved for the customer and the other part is divided between two partners in proportion to their shares of capital. The losses are also shared in proportion to each partner's share of capital in the project. The advantages of musharaka consist in flexible agreements. Special aspects of the partnership, shares of capital and forms of management can be agreed in advance between the partners.

Mudaraba: financial trust based on profit and loss sharing. The Islamic bank trusts its assets for effective management to an experienced entrepreneur of good reputation and professional abilities (mudarib). Profit generated by the enterprise is shared between the bank and the mudarib in accordance with the terms of agreement, mostly in proportion 60 to 40. There is no question of the fixed guaranteed profit. Loss is to be assumed by the bank and in this case the mudarib does not receive any reward.

Murabaha: resale at cost plus an agreed profit margin made as an agreement of sale and purchase. The Bank purchases the product on behalf of the customer and further resales the product to the customer at elevated price. The both partners agreed on profit margin (reward) for the bank in advance. Usually the customer pays the sum by instalments.

Ijarah: leasing contract between the bank and the customer. First the bank purchases the property on the demand of the client and then leases it to the customer. The terms and leasing fees are to be agreed by the partners. The bank keeps the right of property. In other words, the bank is trading its right of property and profit to the customer. The customer uses the property in medium and long -term operations under condition not to cause damage to the property. Ijarah is used in production and construction financing

Istisna: long-term future sale contract. This financial product was developed with intention to invest into serious long-term project as building of the whole sector of economy, capital intensive project, etc. All the calculations are made at the prices fixed by the date of the conclusion of the agreement. The payments are realised at fixed date according to the project planning. One of the particular characteristics of istisna is a detailed work planning with specified terms, amount of payments, quality standards, etc. The planning is to be strictly executed.

Sukuk (Arabic: «check»): Islamic bonds secured by physical assets. The issuer is to define the volume of assets for sukuk. The investor and the issuer share the risks and the profit in accordance with their participation share in the project. A key difference is that the bond represents a pure debt of the issuer whereas in contrast sukuk contains share of property in physical assets in addition to creditworthiness risk of the issuer. Also when the bonds stipulate the relations between the lender and the borrower, sukuk defines the relationship depending on the contract type. For example, ijarah contract sukuk stipulates the relationship between the borrower and the lender that in fact are not typical to relationship between the lender and the borrower. Sukuk is the most demanded Islamic financial product. The sukuk market is focused on Malaysia and the Arab states of the Arabian Gulf.

Qard al-hasan (Arabic:"good loan"): interest-free loan provided both to the individuals and the entities and intended for repayment at the agreed time. Arranging the repayment of the main debt the client can offer an additional sum as a voluntary reward (Hiba) to the bank. The bank itself never requires any reward. This type of investments represents a returned material aid to the needy persons, organisations, regions or interest-free loan for an enterprise. In case it is certain that the customer is not able to return the loan, the investments are provided in form of mandatory or voluntary charity. In a similar way any wealthy member of the society can provide the government or the organisation with interest-free loan to finance public projects as construction of roads, water-treating facilities, etc.

Zakat: wealth tax that is not required by the government but by the Sharia law. Zakat is the third pillar of Islam aiming to purify one's heart from greed. At the same time zakat presents a method of income redistribution in the society. The charitable contributions of zakat arrive in the bank account to be transferred to the poor and the needy or to finance charitable projects.

3. Sources of income generating

Taking into consideration the operation mode of the banks helps to reveal the core differences in income generating in Islamic and western banking. The income of a classic bank is based on the following sources:
1) Interest profit, which is the most stable source of income generating (80%)
2) Transaction fees for non-financial services as account management, furnishing of bank guarantee, currency operations, brokerage and leasing operations, etc.
3) Miscellaneous types of income, different types of penalty, etc.

Business bonds deals with bonds emission by the bank, bonds conversion in the market, investments into the bonds of other issuers with the purpose to assure the stable income generation or the resale. The income generation of the bank results from difference in exchange rate while trading of bonds, dividends, bond-debt rate, bond margin (profit due to the speculation).

On the contrary the income generation of Islamic bank operating within the framework of halal concept where all kind of speculation and interest operations are prohibited. Accordingly, Islamic banking generates profit from the transactions fees:
1. Equity participation in the project with the determined profit share: musharaka, mudaraba and Qard al-hasan.
2. Real estate resale by instalments: ijarah.
3. Purchase and sale contract: murabaha.
4. Sukuk emission.

And also trough the wealth tax (zakat), which can be referred to miscellaneous types of income.

Instead of core differences the financial products of Islamic and western banking have similar characteristics. It is due to the fact that while developing the concept of alternative banking the Islamic economists used the experience of western banking on the one hand and on the other hand aimed to avoid interest basis. As a result, similar banking products are involved in different income generating. Western banking model generates the income through interest rate and Islamic banking through transaction fees.

4. Comparison of Financial indices in Islamic and western banking

This part of the study reviews the comparative data on financial indices of western and Islamic banking.

4.1. Top biggest world banks

The listing of the 50 biggest world banks is based on total assets calculations. Total assets amount help to evaluate the efficacy and the market position of the bank. According to the annual reports the Islamic banks did not enter into ranking 2013. Nevertheless the top positions are held by the Europeans banks that realised successfully the project of Islamic windows: HSBC, BNP Paribas, Deutsche Bank.

Table 2

Ranking of the top biggest world banks (USD billions) on September 2013 [7, 11, and 13]

Rank	Bank	Country	Assets
1	ICBC	China	3067.57
2	HSBC Holdings	UK	2723.36
3	Credit Agricole Group	France	2623.74
4	BNP Paribas	France	2504.25
5	Mitsubishi UFJ Financial	Japan	2476.03
8	Deutsche Bank	Germany	2412.95

At the regional level the Islamic banks entered the top 50 biggest Asian banks ranking although in the closing positions. However, it is an excellent result for the young halal industry. The Islamic banks appeared only 30–40 years ago and meanwhile succeed to show regular annual assets growth and compete with the largest world banks.

Table 3

Top biggest Asian banks (USD billions) on April 2010 [7, 11, 13]

Rank	Bank	Country	Assets
1	Mitsubishi UF	Japan	2 674.6
2	Mizhuho financial group	Japan	2 551.3
3	ICBC	China	2 454.7
35	Turkiye is Bankasi	Turkey	86.34
41	Emirates NBD	UAE	76.66
47	CIMB Group Holdings	Malaysia	70.14
50	Public Bank	Malaysia	63.27

In fact since the appearance in the seventies the Islamic banks succeeded to raise substantial funds from the Islam followers, form significant assets and involve them into the business. However, the Islamic banks face difficulties in competing with the transnational banks owning bigger capital base, more experienced specialists, well-developed network and contacts. As a result, the western banks demonstrate higher activity in organization of investment project, including in sukuk emission. The report of international audit company Ernst & Young [4] notes that in sukuk emission history eight out of ten biggest issuers were western banks or their Islamic windows.

4.2. Top risk-free world banks

The listing of the top 50 safest banks represents is regarded as the standard for the financial world. The banks are selected between the 500 biggest world banks according to the comparison of long-term credit ratings and total assets. In the safety listing of 2010 appear the banks that succeeded to increase the assets and decrease the overdue liabilities. The top 5 banks are presented by the European banks. The Islamic banks are registered in the listening in the 32nd and 50th positions.

Table 4

50 Top biggest world banks in 2010 [11]

Rating	Bank	Country
1	KfW	Germany
2	Caisse des Depots et Consignations	France
3	Bank Nederlandse Gemeenten	Netherlands
4	Zuercher Kantonalbank	Switzerland
5	Landwirtschaftliche Rentenbank	Germany
38	National Bank of Kuwait	Kuwait
50	National Bank of Abu Dhabi	UAE

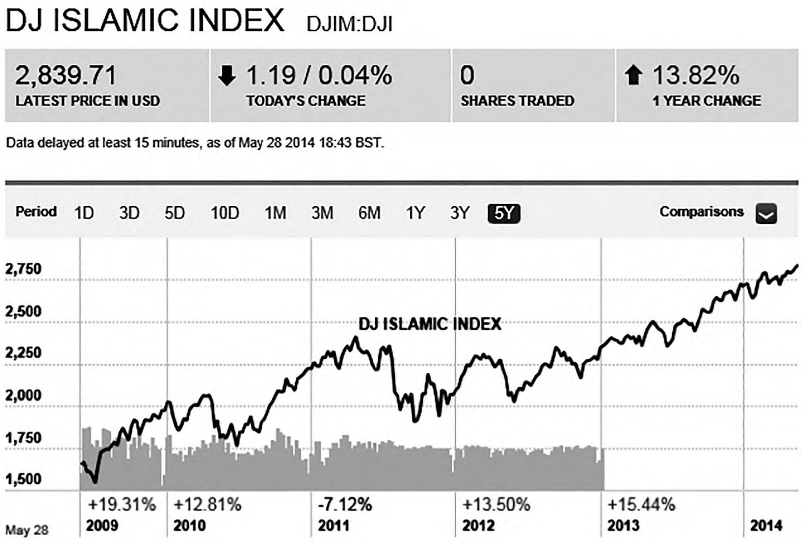
As it known the safety evaluation of a bank is a complicated and long-term process consisting of analysis of a number of indicators as assets dynamics, liquidity index, and effectiveness. Also the relationship between the bank and the government or the transnational company is of great concern. Because in case of a crisis the bank will receive the support of the government or the transnational company. Even though the Islamic banks are not listed among the 50 biggest world banks, they scored two positions in safety rating. Both National Bank of Kuwait and National Bank of Abu Dhabi are state banks but this fact is not the only guarantee of their safety. In practice the Islamic banks have to comply not only with the worldwide safety standard as the highest credit rating (AAA) but particularly with the Sharia Quality Rating (SQR). And Sharia application is compatible neither with the speculation nor with non asset-backed arrangements. The fact, that the Islamic banks were less affected by the Global Financial Crisis in comparison with their western colleagues, demonstrates safety growth tendency of Islamic banking.

4.3. Comparative dynamics of global indices

The first Islamic index Dow Jones Islamic Market World Index (DJIM) was launched in 1999 in Bahrain while the western index appeared in 1884. DJIM was set up according to AAOIFI standards. DJIM complies with all requirements of halal industry and includes all economic sectors like Dow Jones Global Index (W1DOW). The Islamic Index embraces 95% Sharia-compliant bond market in over 40 countries.

Figure 1

Dynamics in DJIM on May 2014 [6]



The five-year evaluation of W1DOW and DJIM indices shows that both indices have the similar trends. However it is noticeable that the crisis of 2011 impacted Islamic products to a lesser degree.

Figure 2

Dynamics in W1DOW on May 2014 [6]

5. Economic indices of the countries across the world

Table 5

Wealth rating of the countries of the highest GNP per capita in USD [9]

	country	2011	2012	2013
1	Catar	97987.01	102211	105091.42
2	Luxembourg	79777.99	79785.04	79593.91
3	Singapore	59594.79	60409.98	61567.28
8	Saudi Arabia	47728.78	49011.59	49883.58

GDP per capita indicator helps to evaluate the wealth level of the country. Although this information is not directly related to the financial activity it can contribute to the comparative study. GNP data analyzed together with the previous indices proves that Islamic banking have competitive abilities and a big potential for the development, given that the main countries of Islamic banking are provided with the high-income customers and the real financial resources for further development of the business.

6. Geographical expansion and integration of Islamic banks into international banking system

The first Islamic banks appeared in the Middle East about 40 years ago. Nowadays they are presented by 300 banks in 75 countries worldwide. Total assets of the Islamic banks value US$450 billion. Transactions volume of the Islamic banks increases 15–20% annually. According to the estimations of Standard & Poor's the Islamic financial market will reach US$1trillion in 2013 [13]. Although the total assets of the Islamic banks constitute only 1% of the global assets, the Islamic financial market will grow because the Muslim population is increasing constantly. Pew Research Center reports that Islam is the world's fastest growing religious group [12]. The Muslim population grows twice as fast as overall world population. The main customers of **IFIs are Muslims who make up about ¼ of world population.** Muslim communities are located in over 120 countries and involve about 1.5–2 billion people according to various estimates. Only 18% Muslim population lives in Arab countries. However the traditions and the mentality in these countries are not identic. The main economic distinctions are related to the specialization of internal and foreign economic policy, openness market access, impact of religion on the state affairs, level of financial system development and integration to global economy. Islamic banking demonstrates the following development directions:

6.1. Muslim countries in the Southeast Asia and Africa with the highest concentration of potential customers

Currently there are only four countries Pakistan, Iran, Sudan and Malaysia where Sharia-compliant banking model is totally realized. In overall Muslim countries Islamic banking products are provided only by several institutions. Moreover there is a tendency for interested based banks takeover by Islamic banks. The value of financial assets in Iran (US$235 billion), Saudi Arabia (US$92 billion) and Malaysia (US$67 billion) [4]. Having the largest banking group Al-Baraka presented in 40 countries Bahrain pretends to become the global center of Islamic finance. For several years Malaysia has been setting itself as the global sukuk center.

6.2. Islamic banks entering into the market of Western Europe, the US and Central Asia

The Islamic banks enter the global financial market with confidence and establish partnership relations with the biggest world banks. Over 16 billion Islam followers have residence only in the EU countries. European Muslims possess 50% middle class savings of the global Muslim population. Mainly Islamic banking is well-developed in Britain. Accordingly London claims to be a European center of Islamic finance. The first Islamic bank in Europe "Islamic Bank of Britain" (IBB) was inaugurated in London in 2002. The shareholders of IBB are representatives of the banks from the Middle East and Britain.

6.3. Western banks creating Islamic windows

Realizing that a new segment of active customers appeared in the financial market the biggest world banks as BNP Paribas, HSBC, Société Générale, Deutsche bank and Citibank started to create special Islamic windows and provide the customers with Sharia-compliant services. Introduction of Islamic banking products helped them to attract either new customers among Islam adapts who could not enjoy basic Sharia-compliant products as deposits, account operations, real estate mortgage, or non-Muslim customers. Expansion of Islamic banking in Europe is restricted only by the national legislation in the countries. Some countries Great Britain, Italy, France and Luxembourg have already adapted the legislation to assure favorable tax conditions.

6.4. Initiative of Islamic banking integration in the Russian Federation

Russia has a big potential for the development of Islamic finance. In 1991 Moscow Dagestanian diaspora took the initiative to launch a Sharia-compliant bank “Badr-Forte Bank”. But in 2006 the banking license was revoked. The activity of Islamic institutions faces many contradictions in Russian legislation. Only the financial house “Amal” in Kazan and “Vostok-Capital” in Ufa are operating on Sharia-compliant basis.

After the “Arab spring” and Global Financial Crisis the total assets of IFIs will increase by 33% in comparison with 2010 as it is stated in the recent Ernst & Young report. The strongest growth is expected in Middle East and Northern Africa where the assets will increase from US $ 416 billion in 2010 to US $ 990 by 2015 [5] as well as in the new countries open to Islamic finance.

Conclusion

It is absolutely evident that the Islamic financial system develops successfully either in Muslim or secular countries worldwide giving the following advantages:

- Investment into real economy
  The investment strategies of Islamic banks are set in accordance with the religious ethics of Islam. In that regard the Islamic bank do not invest into the enterprises related to production and distribution of non-halal items as pork, alcohol, weapons. On the other hand the considerable sums are invested into the real economy, scientific and technical projects.
- Risk free model
  The transactions of Islamic banks deal more with tangible assets in other words with assets with a physical existence as property, plant or a group of individuals. On the contrary interest-based banks do not participate in real production because the legislation guarantees them the credit refund or partial credit refund.

- Socially oriented model
  Islamic financial model does not apply speculation mechanisms and in this way creates more faire economic and social network.
- Credit default rate next to nothing
  Under any circumstances faithful Muslims try to return the debts because it is demanded by Allah. In case of death of the borrower the debt is to be paid by his relatives able to work.
- Steady development and operating efficiency
  The Islamic banks progress fast. The efficiency of Islamic banks is stated in balance sheets and IMF report of 2008 where is detailed the financial condition of 77 Islamic and 397 western banks of equal capitalization worldwide within the last 12 years. The report reveals that the Islamic banks are more effective than the western banks of capitalization less than US $ 1 billion and over US $ 1 billion: 1/3 and 25% respectively. IMF relates this success to individual customer approach and more proficient risk evaluation. In 2008 average profitability of IFIs made up 10–12% in the US, Western Europe (12–15%), Eastern Europe (15–20%) [10].
- Financial stability in the Global Financial Crisis
  In comparison with the western banks Islamic banking model is characterised by better stability and resistance during the Global Financial Crisis of 2008. Stability of Islamic banks facing the world financial crisis results from Quran prohibitions of speculation and investments into potentially dangerous assets as derivatives and high-risk hypothec where the western financial companies and banks suffered huge losses.
- Creation of alternative financial market adapted to the demand of faithful Muslims
  IFIs attract capital from Islam adapts who used to keep away from banking services out of respect for religious convictions. The Muslims prevent themselves from western banking because operating on this model the bank does not control the application of capital. So the borrower is free to use the capital in any way he wishes, including in alcohol production that is strictly prohibited in Islam.
  However besides the advantages of Islamic banking it should be noted the following negative aspects in the realisation of Sharia-compliant products:
- Necessity to create unified system and standards.
  Sharia board consisting of Islamic qualified jurists controls the compatibility of banking operations with Sharia law. Due to the absence of unified international system of the standards Sharia board is to issue the legal opinion (fatwa) in each case individually. So it could happen that fatwa of one Sharia board do not correspond to the opinion of another Sharia board. Certainly it can have negative impact on cooperation between the Islamic banks. Even though AAOIFI provides support in Islamic banking standardization, individual interpretation is of current use.

- High prices services.
  The transaction fees in the Islamic banks are higher than in the western banks when they operate in the same business environment. One of the reasons of price increasing is the requirements of the Sharia and international standards as Sarbanes-Oxley and Basel II. For example sukuk is the object to double or even triple taxing. Under such circumstances the Islamic banks have to compete for customers and try to archive better competitiveness.
- Deficiency of legal framework preventing from creation of functional banking structure
  Deficiency of legal and fiscal framework in the western countries prevent from operating Sharia-compliant transactions.
- Limited investing opportunities and the lack of qualified specialists.
  Having bigger capital base, more experienced specialists, well developed chain and multiple contacts with the investors the western banks demonstrate greater activity in organisation of investment projects. Paradoxically the western banks are leaders in emission of sukuk, which is the most promising and profitable product of IFIs.
- Limited and irregular geographic expansion.
  Supply of Sharia-compliant financial products is considerably limited. Mainly the Islamic banks are operating in the countries of developed economy particularly in the countries of the Arabian Gulf and Malaysia. In the meantime the banking sector remains underdeveloped in African countries and Indonesia inhabited by the majority of world Muslim population. In respect to non-Muslim countries the majority of Sharia-compliant transactions there are operated in London. The attempts to launch halal banking in the EU had no success.
- Gap between supply and demand.
  Currently the range of Sharia-compliant financial products is not enough to supply the demand growth. Basically outside the Muslim world the halal financial products are targeting private and institutional investors. In Europe the Muslim middle class does not have an opportunity for real estate financing or effective Sharia-compliant investment.
- Insufficient advertising and product information
  For many people Islamic banking is more related to religious cult than to alternative business. For example it is a little known fact the Islamic financial products are neutral and available to everyone without reference to religious convictions. Many people are scared by the definition “Islamic” and start to suspect Islamic banking of terrorism financing.
  Analysis of the above-mentioned facts helps to elaborate the propositions of using the positive experience of Islamic banking together with western banking for the purpose to stabilize the global market and create fairer economic and social network:
- Development of halal industry as an alternative financing option with the purpose to diversify global economy and overcome the Global Financial Crisis.

- Reform of the laws regulating alternative finance jurisdiction.
  Islamic finance jurisdiction can coexist with national banking legislation regulating only the activity of IFIs: Islamic banks, investment funds, insurance companies.
- Application of High-Tech innovations.
  Islamic finance have to stop copying the western banking products and start offering original solutions and alternative options in other words to create a greater variety of products. For example wide use of information technology: accounting software, automated teller machines (ATM), telephone banking service, Sharia-compliant credit card.
- Raising customer awareness about Islamic banking methods.
- Specialist training aimed to develop Islamic banking
- Breaking mutual ignorance prevailing between East and West. Abandonment of Western-Centrism and Islamophobia.
- holding workshops, conferences, creating information web-portal to encourage communication with international specialists and IFIs. Developing and integration of education programs on Islamic economics and finance.

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