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Islamic finance: Meeting Global Aspirations and Growth Potential — UK Model

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ABSTRACT

This study's **objective** is to provide a description of the Islamic financial industry and its products, with an emphasis on the development of Islamic finance in the UK market. Islamic finance is a relatively popular issue in the world of economics due to its patterns of worldwide expansion. In the western world, the UK is at the forefront of Islamic finance. This research used a positivist outlook, and a **descriptive research** design. The optimum way will thus be to acquire secondary data. Both content analysis and descriptive analysis were used to examine the data that had been gathered. The **findings** showed that the UK's political environment and organizational structure support the expansion of Islamic banking there. The study also highlights the difficulties that UK-based Islamic financing faces. The **results** showed that financing real estate, as well as the provision of insurance services and the financing of transport firms without interest charges on loans, improve investment by Islamic banking and conventional banking institutions with an Islamic sector.

Keywords: Islamic Finance; Islamic Banking; profit and loss sharing; Sharia compliance; conventional banking

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Исламские финансы: соответствие глобальным устремлениям и потенциал роста — модель Великобритании

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Цель исследования — оценка исламской финансовой индустрии и ее продуктов, а также развития исламских финансов на рынке Великобритании. Исламские финансы относительно популярны в мире экономики из-за тенденции их всемирного распространения. В западном мире Великобритания находится на переднем крае исламских финансов. В данном исследовании использовался позитивистский подход. Для изучения собранных данных использовались как контент-анализ, так и описательный анализ. **Результаты исследования** показали, что политическая среда и организационная структура Великобритании поддерживают расширение исламского банкинга в этой стране. В исследовании отражены трудности, с которыми сталкивается исламское финансирование в Великобритании. В результате авторы приходят к выводу: финансирование недвижимости, а также предоставление страховых услуг и финансирование транспортных фирм без взимания процентов по кредитам улучшают инвестиции исламского банкинга и обычных банковских учреждений с исламским сектором.

Ключевые слова: исламские финансы; исламский банкинг; распределение прибылей и убытков; соблюдение шариата; традиционное банковское дело

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1. Introduction

The term "Islamic finance" appeared in the mid-1980s. The Islamic financial system is often described as prohibiting the charging of interest on financial services. However, the principles of Islamic finance are much broader than the rejection of interest, as it is based on Sharia — a set of rules and laws relating to the management of the economy and the social, political, and cultural aspects of Islamic society. The use of traditional financial instruments may be almost impossible in the Islamic world due to their non-compliance with Sharia laws in some Islamic countries.

In the past decade, the concept of the "Islamic bank" has become firmly rooted in the lexicon of financiers in many developed countries. This financial institution operating in Islamic and non-Islamic countries has gradually begun to flourish, and this institution has also played an increasingly important role in reducing dependence on the financial system. In countries such as the United Kingdom, the number of citizens practicing the Islamic financial system and refusing to use the services of conventional banks has increased, so Islamic institutions can no longer be ignored. Therefore, the study of Islamic financial institutions is a popular topic in the world of economic literature, especially if it deals with a European experience such as the United Kingdom because it attracts the practical interest of economic agents in most European and Asian countries [1, 2].

Research problem: The growth of Islamic finance in any country, whether Islamic or non-Islamic, needs support and stimulation, and the most important thing is government support that can introduce a set of rules, laws, and legislations conforming to Islamic law for this type of financing to succeed, and the supporting structures for Islamic financing. The research problem of this study: What are the most prominent motives that led the United Kingdom to resort to Islamic finance? And how can it reconcile the work between two different systems in principles and foundations? The research questions include:

- What are the basic principles of Islamic finance? And what are its characteristics?
- What are the main potentials that the UK can provide for the growth of Islamic finance?
- What are the main challenges it faces when applying it in a traditional economy and subjecting it to traditional financial laws and regulations?
- What are the prospects for the United Kingdom through this funding?

Research objectives: This research aims to describe the basic principles of the work of the Islamic financial system, as well as the challenges and consequences of the emergence of Islamic financial institutions in the traditional financial markets in the United Kingdom, concerning the reasons and factors that led to the growth of Islamic finance in the United Kingdom, as well as their view and guidance of the future of Islamic finance.

Research hypotheses: Islamic banks have a special feature represented in the application of Islamic Sharia principles. Also, the Islamic financing formulas are numerous and varied, and they can be applied at different times and terms, whether in the short, medium or long term according to Islamic Sharia. There are also many uses of financing in Islamic banks in the UK, such as the purchase of financial assets, the purchase of the real estate, as well as the purchase of fixed assets, working capital financing and other activities.

Research Methodology: To answer the research problem and achieve its objectives, we relied in this research paper on the descriptive-analytical approach, which helped us to accurately understand Islamic finance in general and Islamic finance in the United Kingdom in particular, and analyze most of its dimensions in a form of clarification and interpretation.

The rest of the paper is structured as follows. Section 2 discusses the theoretical framework of Islamic finance, Section 3 provides a comparison between conventional finance and Islamic finance, Section 4 addresses Islamic finance in international and Arab banks, Section 5 discusses a study of the UK's experience in Islamic finance. The final section presents conclusions.

2. The theoretical framework of Islamic finance

2.1. The concept of Islamic finance. Islamic finance refers to how companies and individuals raise capital by Sharia or Islamic law. It also indicates the types of investments allowed under this type of law. Islamic finance can be considered a unique form of socially responsible investment. The concept of risk-sharing is central to Islamic banking and finance, and it is necessary to understand the role of risk-sharing in increasing the capital. At the same time, Islamic finance requires the avoidance of usury and *gharar* (ambiguity or deception). There are many definitions of Islamic finance, but all of them share the same concept: "providing wealth, in-kind or cash, with the intent of profiting from its owner to another person who manages it and disposes of it in return for a return permitted by Shariah rulings" [3]. Al-Ahmad indicated that Islamic finance must have the characteristics derived from Islamic Sharia that can be summarized in the following points [4]:

Commitment to the provisions, controls, laws, and rules of Sharia in various investment activities.

Not dealing with interest or *gharar* (fraud, deception, and ambiguity).

The multiplicity and diversity of Islamic financing forms (*musharaka*, *murabaha*, sharecropping, etc.).

Directing financing towards real investment, meaning directing it to produce and distribute goods, services, and investment projects.

Taking into account the real needs of society and linking Islamic finance to them by the legitimate priorities, the necessities, then the needs, then the improvements.

The focus of Islamic finance is on directing the individual's behavior towards virtuous morals, such as honesty, self-evaluation, sincerity, mastery of work, and others, which provide greater opportunities for the success of the institution.

Work to achieve justice between the two parties to the investment transaction (savers and investors).

The researchers believe that Islamic finance can be defined as the process of providing money from savers to investors in a manner consistent with Islamic Sharia regulations and Islamic formulas, to invest this money in a specific project in a manner that generates profits for the depositor and investor.

2.2. Objectives of Islamic finance. There are several objectives of Islamic finance that can be summarized in the following points [5]:

- Finding alternatives to traditional financing. This primary goal is to provide easy alternatives to society to dispense with traditional financing methods such as interest-bearing loans, whether at the level of individuals or institutions, to ensure the achievement of development for Islamic societies.
- Emphasizing that the profit value is not the basis of the financing process. In contrast to traditional financing, which is concerned with the value of the interest from the loan and the ability to repay as the most important conditions for financing, Islamic financing looks at the project itself, its economic and social feasibility, and its repercussions on society so that it does not carry waste funds, even if it proves its ability to pay and achieve profitability.
- Fighting unemployment and creating new job opportunities. Islamic finance aims to combat unemployment and create new job opportunities for individuals or providing small capital for individuals to establish small projects that benefit the community.
- Supporting the economic development of society and achieving economic well-being. Striving towards achieving development and economic prosperity and raising the level of income for the low-income groups, trying to provide new sources of income for these groups, which ensures the fulfillment of human needs and the eradication of poverty.
- Achieving good returns for owners of capital. One of the most important objectives of Islamic finance is to develop funds and protect them from consumption by saving them with financial institutions that provide investment tools that are compatible with Sharia, and these institutions play their role by investing these funds for their owners.
- Supporting social justice through the distribution of wealth and the fight against hoarding. One of the objectives of Islamic finance is to encourage people with low incomes to work and produce so that it provides a source of money and thus helps to distribute wealth and also encourages owners of money to invest their money, which leads to reducing hoarding of wealth.

2.3. Forms of Islamic Finance. Here is a brief overview of the types of finance that are often allowed in Islamic finance:

- ***Mudarabah*** (profit and loss sharing contracts). Also known as *modarabah* and *modaraba* means "an agreement between two parties, one of whom provides money and the other effort to invest it in legally permissible activities. The first is called the master of money and the second is the employer or the speculator, where the profit is distributed between them according to the contract, and the loss is borne by the owner of the money alone" [6]. The Islamic bank collects the investors' money and bears a share of the profits and losses. This process is agreed upon with the depositors. The bank invests in mutual funds that were screened for Shariah compliance. The candidate analyzes the company's balance sheets to determine if any of the company's sources of income are prohibited. Companies that carry a lot of debt or operate in prohibited lines of business are excluded. In addition to actively managed mutual funds, passive funds are also used. They are based on indices such as the Dow Jones Islamic Market Index and the Financial Times Stock Exchange (FTSE) Global Islamic Index [7].

- ***Musharaka.*** It expresses an "agreement between two or more parties to carry out an investment activity that the capital and profit shall be shared between them. Unlike *mudaraba*, in which there is capital on the one hand and work on the other, two or more parties contribute to the share capital and may share the work" [8]. The profit between the parties is shared according to the agreement [8].
- ***Ijarah.*** It is a contract between two parties whereby the benefit of an asset is sold, for a known price, and for a known period, where the owner of the asset (the bank) provides the asset to another party to benefit from its services in return for a known fee. Movable assets such as machinery and equipment, or fixed assets such as land and real estate can be involved.
- ***Murabaha.*** It is a person selling what he bought at the price at which he bought it with an increase of a known profit. The purchase may be made outright (lump sum) or through a series of deferred payments (installment). The credit sale is an acceptable form of financing and should not be confused with an interest-bearing loan. There are two types of *murabaha*: 1. Simple *murabaha*, which means the owner's sale of a commodity he originally owns at the same price, and an increase determined by the bank, such as sales that all traders usually carry out; 2. Complex *murabaha* is one of the trust sales, where a person asks another person to buy him a specific commodity and promises to buy it from him with a certain profit, and this type of sale is carried out by Islamic banks and constitutes a large percentage of their investments [9].
- **Sharecropping.** An arrangement in which an owner of the land allows a tenant to cultivate it or work on it in return for a share of the crops produced on that land.
- ***Msaqat.*** Irrigation is a type of partnership based on the effort of the worker in caring for the fruit trees and promising watering and care on the basis that the output of the fruits is distributed between the owner and the worker in an agreed ratio, so the bank provides the money and the necessary watering tools and with the possibility of placing a hired worker who will do the work and share output with the owner of the land [10].
- **Salam and Istisna.** These are rare forms of financing, used for certain types of business. The price of the item is prepaid, and the item is delivered at a specified point in the future (forward sales). Since there are a set of conditions that must be met to make these contracts valid, the assistance of an Islamic legal advisor is usually required [11].

2.4. Traditional sources of financing include:

External sources of funding:

- Short-term finance, commercial finance or bank credit.
- Medium-term financing: directed to the exploitation cycle of medium-term bank loans.
- Long-term financing: geared to the investment cycle.

Internal sources of funding:

- Financing using equity: by issuing new shares, raising the capital of the institution.
- Financing using long-term debt loans in which several banks and financial institutions participate.

Islamic banking services focus on investment, emphasizing the soundness of the project and applying ethical standards in acquisition. Traditional banks focus on lending, the ability to pay, and the application of financial standards.

3. A comparison between conventional finance and Islamic finance

Islamic finance is distinguished from conventional finance by several important basic matters that must be clarified to arrive at a clear idea of adopting Islamic finance. The traditional finance mainly depends on interest-bearing loans [12], while Islamic finance does not depend on interest-bearing loans, but may appear in partnership with others, such as *murabaha* or *mudaraba*.

We also find that the cost of Islamic finance is much less than traditional finance, as Islamic finance does not allow delaying the repayment of the debt, and the imposition of interest-delayed interest on it. On the contrary, in conventional finance, it is in the interest of the creditor that the delay in repaying the debt leads to the imposition of interest [3; p. 301].

Islamic finance is characterized by stability, as the Islamic financial institutions bear the profit and loss with the clients. That mitigates the loss which is a major cause of the emergence of financial and economic crises observed in traditional finance [3; p. 301].

Islamic finance is subject to Islamic Sharia rules and controls, because Islamic finance contracts must conform to the provisions and principles of Islamic Sharia. Thus, Islamic banking legislation refers to prohibitions that cannot be applied, as in the prohibition of dealing with usurious interest by taking and giving and financing for illegal goods or services under the provisions of Islamic Sharia.

4. Islamic finance in international and Arab banks

Islamic finance appeared 50 years ago in countries with a large Muslim population that were keen to ensure that their sources of financing were governed by the requirements of Sharia and the principles of Islam. The global Islamic finance market can be divided by sector into: Islamic banking, Islamic insurance "Takaful", other Islamic financial institutions (OIFLs), Islamic bond "sukuk" and Islamic funds. By geographical region the Islamic finance market can be divided into: Gulf Cooperation Council (GCC) countries (Saudi Arabia, Kuwait, UAE, Qatar, Bahrain, Oman); Middle East, North Africa (MENA) (Iran, Egypt, rest of MENA); South Asia, Asia Pacific (Malaysia, Indonesia, Brunei, Pakistan, rest of South Asia, Asia Pacific) and Europe (UK, Ireland, Italy and the rest of Europe).

1. Global Islamic Assets. The global Islamic finance market is growing at a steady pace, posting a compound annual growth rate of 7.8% between 2014 and 2019. The industry has benefited greatly from strong investments in the halal, infrastructure, sukuk and Islamic funds sectors, particularly from electronic methods in all products and services (*Table 1*).

In 2019, global Islamic financial assets grew 14.4% to reach $ 2,500 billion, marking their pace after a moderate 2.0% increase in 2018. This double-digit growth was recorded in part due to higher Sukuk issuance in traditional markets. The Sukuk market expanded by 14.5% to reach $ 538 billion in 2019 compared to an increase of 10.3% in the previous year, and accounted for 19% of the total assets of the global Islamic finance industry. It should be noted that green Sukuk and SRI (Socially Responsible Investment) sukuks are gaining prominence in the UAE and Southeast Asia. This sector rebounded from a 10% decline in 2018 to record the highest growth over the past decade. This growth was primarily driven by the new launch of Islamic Exchange Traded Funds (ETFs) in several countries and ESG-related investment assets made available through digital media.

Islamic banking, which represents 69.3% of the total assets of the global Islamic finance industry, grew at a pace of 14.2% year over year (YoY) during 2019 to reach US$ 1,993 billion (*Table 2*). Non-core markets experienced the fastest expansion such as Morocco, where "participation banking" was introduced in 2017. Islamic banking in Morocco has since experienced an annual growth rate of 120%. Other markets likely to see further expansion of Islamic banking include the Philippines and Turkey. The Philippines passed a new Islamic banking law in 2019 that allows domestic and foreign banks to set up Sharia-compliant banking windows.

Core markets accounted for the highest share of Islamic banking assets in GDP in 2019.

On the other hand, global *takaful* assets grew by 10.9% YoY to reach $ 51 billion, which is a significant recovery from the losses experienced over the past two years. Saudi Arabia, the world's largest *takaful* market, recorded an 8.8% YoY growth in contributions as the introduction of mandatory health insurance triggered new business. *Takaful* assets in other GCC markets registered higher growth, with contributions up to 14% in 2019. During the year, *Takaful* operators in GCC countries reported improvement in investment profitability as growth was observed across several business lines. Finally, Other Islamic Financial Institutions (OIFI), which include financial institutions such as investment, finance, mortgage, leasing, and factoring firms, grew by 5.5% YoY to reach US$ 153 billion in 2019. Malaysia topped the list of OIFIs with assets of 54 billion USD in 2019. The Maldives was the fastest growing market for OIFI, with total assets increasing by 62% to USD 44 million, aided by government support to develop favorable frameworks. The growing popularity of Shariah-compliant housing finance in the Maldives led to a 31% increase in these assets during 2019.

2. Top 10 Global Islamic Assets Market. The global Islamic asset market remained largely concentrated in Iran, Saudi Arabia, and Malaysia, which together accounted for 66% of total assets in 2019. Bahrain has the highest Islamic finance assets as a percentage of GDP with a percentage of 124%, followed by Malaysia (53%), Iran (47%), Kuwait (43%), and Qatar (40%). Countries with large Muslim populations, outside the core markets of the GCC and Malaysia,

Table 1
Islamic Financial Assets by Sector (US$ billion, 2014–2019)

Total, US$ billion	Islamic banks, %	Islamic banking, %	Islamic money, %	Solidarity, %	Other Islamic Financial Institutions,%	Year
1,975	73.1	15.1	3.3	1.8	6.6	2014
2,201	72.7	15.5	3.2	2.1	6.4	2015
2,307	72.5	15.0	4.3	2.1	6.2	2016
2,461	70.2	17.3	4.9	1.9	5.8	2017
2,513	69.4	18.7	4.3	1.8	5.8	2018
2,500	69.3	18.7	4.9	1.8	5.3	2019

Source: compiled by the authors based on the data from the International Monetary Fund (IMF) for 2014–2019.

Table 2
Global Islamic Finance Asset Distribution (2019)

Size (billion dollars)	Share of Islamic finance Assets, %	Number of Institutions/ Tools	Banks
1,993	69	526	Islamic banking services
538	19	3,420	Instruments
153	5	645	Other international financial institutions
140	5	1,749	Islamic funds
51	2	336	Symbiosis

Source: compiled by the authors based on the data from the IMF for 2014–2019.

are also gaining momentum. For example, Morocco recorded the fastest growth in 2019, after opening its first "participation bank" in 2017. Tajikistan and Nigeria followed suit with the fastest growth in Islamic financial assets during the year. Among the top 10 Islamic finance countries in terms of assets, Iran topped the list with $ 698 billion in assets, followed by Saudi Arabia with $ 629 billion, and Indonesia recorded the highest average growth of 19.7% over the five years to 2019 (*Table 3*).

Regionally, the GCC countries had the highest share of Islamic finance assets with 43.6% or $ 1,253 billion, while the Middle East, North Africa, and Southeast Asia (Southeast Asia) accounted for 26.3% (US$ 755 billion) and 23.8% ($ 685 billion), respectively. Notably, Southeast Asia has gained a lot of momentum in terms of growth in Islamic finance over the past few years. This growth has been largely fueled by the growing Muslim population in the region, as well as the high proportion of Muslims seeking to make investments in line with their religious beliefs. Thus, governments in the region, especially Malaysia and Indonesia, have played an active role in promoting Islamic finance instruments and have introduced several regulations to support this trend.

5. A study of the UK's experience in Islamic finance

Of the 20 UK banks that offer Islamic finance services, 5 are fully Sharia-compliant licensed banks, raising $ 728 million in net assets of Islamic funds in the UK [13]. "Total Shariah-compliant banking assets in the UK were around $ 4.5 billion in 2016" [13].

Since the 1980s, the London Metal Exchange has recorded many commodity transactions for *Murabaha* contracts, meaning that financial institutions have been providing sharia-compliant options for the growing demand for Islamic finance in the UK, largely because English law is one of the best jurisdictions to operate Islamic contracts. From 2003 onwards, the UK introduced a series of financial laws, especially with regard to dual character obligations, and legislation was adopted to eliminate double

Table 3
Top Countries for Islamic Finance Assets (Billion USD, 2014–2019)

5-year compound annual growth rate (%)	2019	2018	2017	2016	2015	2014	Country
15.1	698	575	568	545	434	354	Iran
8.8	629	541	509	473	447	413	Saudi Arabia
6.5	570	521	491	406	414	415	Malaysia
7.7	234	238	222	203	187	161	UAE
10.7	144	125	129	68	101	87	Qatar
6.3	132	116	109	120	100	98	Kuwait
19.7	99	86	82	82	48	40	Indonesia
5.6	96	86	84	99	81	73	Bahrain
3.1	63	51	54	50	52	54	Turkey
14.2	45	38	34	31	26	23	Bangladesh
−9.1	164	136	169	230	311	265	Other
7.8	2,574	2,513	2,461	2,307	2,201	1,975	Total

Source: compiled by the authors based on the data from the IMF for 2014–2019.

taxation. There was also tax exemption on Islamic finance products so that they could be balanced with traditional transactions.

Besides the required financial expertise, due to the legal amendments and flexibility created for Islamic finance contracts, this has increased the need for specialized legal advisers. Most important UK law and accounting companies provide services in all Islamic finance matters. In addition, offers in training and education at Islamic finance have been numerous in the UK, and are considered one of the biggest providers of this topic, in a range of courses and qualifications. All of the UK's efforts to make London the centre of Islamic finance in the Western world, making the UK one of the best options for Islamic investments and trade deals, was the first Western country to issue sovereign instruments. In 2014, the UK government sold £ 200 million worth of instruments, due in 2019, to UK-based investors and major global Islamic finance centres. The first UK sovereign instruments were increased in underwriting with very strong demand and orders totaling about £ 2.3 billion [13].

LSE (London Stock Exchange) is also a central instrument issuance market for various multinational companies, such as Airbus and Emirates. "To date, a total of 65 instruments have been listed on the London Stock Exchange with a total value of $ 48 billion" [13].

Overall, based on the IMF data for 2017, the UK has been a leader in the Western world in the Islamic finance industry. "The growth of the industry is facilitated by a unified but secular framework that promotes equal opportunities for all financial institutions". The UK government has been a key player in promoting Islamic finance locally, recognizing the importance of the industry in booming its economy, thus maintaining a flexible and equitable framework for all in the financial industry. As a result, the growth of Islamic banking assets in 2015 exceeded 30 per cent, while traditional banks recorded a 0.7 per cent decline.

5.1. The History of Islamic Finance in the United Kingdom. The following key events characterize the history of Islamic finance in the UK:

- Islamic finance came to the UK for the first time in the 1980s, with the introduction of *murabaha* transactions, and the first Islamic bank in the UK was launched in 1982, the Global Islamic Pond, followed by the growth of sharia-compliant products in trade, leasing and project finance.

• In the early 2000s, the UK government began to take a serious interest in Islamic finance, and developed an action programme to bring the UK's financial services systems into line with the growth of Islamic finance. Changing the tax transaction, to ensure that equivalent-purpose Islamic and traditional financial transactions lead to similar tax bills, was also an important step to allow the market to grow.

• Meanwhile, there has been significant growth in the offer of Islamic Retail Finance Services, providing choice to more than 2.5 million Muslims residing in the UK. At present, there are five fully Sharia-compliant banks in the UK, with 20 institutions providing Islamic Finance Services.

• To serve this growing industry, large-scale vocational education and training programme has been developed in the field of Islamic finance. Currently, four vocational institutes and some 70 universities and business faculties offer qualifications in the field of Islamic finance.

• The UK's Islamic Bond (*Sukuk*) market began in 2007 and continued to grow. By 2015, 57 instruments had been listed on the London Stock Exchange, with a total value of $ 51 billion. In 2014, the UK government became the first western government to issue sovereign instruments, exceeding the underwriting 11 times.

With strong Islamic insurance, money management and banking sectors, the UK has also developed expertise in supportive occupations, while adopting advisory and legal forms of Islamic finance practices.

In 2015, the UK made its first global event: $ 913 million in *Sukuk* export credit guarantees were provided to finance the purchase of four Airbus A380 aircraft for Emirates.

In April 2017, the UK's first Islamic fintech company received full approval from the Financial Conduct Authority. This approval was another example of the UK's efforts to retain its position as a global financial hub and hub for Islamic finance and fintech and to provide support to Muslim homebuyers in the UK. As of October 2017, there were more than 20 companies in Britain offering sharia-compliant products, a level above any other Western country. This included five Islamic banks: the Gatehouse Bank, the Rayyan Qatari Bank, the London and Middle East Bank, the Abu Dhabi Islamic Bank, and a unit of the Qatar Islamic Bank, as an observer member of the Council for Islamic Financial Services in Kuala Lumpur.

Rayyan Bank first released £ 250 million in 2018. Al Waskah issued USD 50 million in instruments in 2019. This provides an alternative financing solution for companies and institutions and gives investors access to a wider range of sharia-compliant investments and assets in the United Kingdom.

The UK issued its second sovereign instruments (Islamic bonds) in 2021. The Pound500 million instruments were sold to a wide range of institutional investors in the United Kingdom and in key Islamic finance hubs in the Middle East and Asia. This second show is more than double the size of the UK's first release in 2014. It increased the market's supply of sharia-compliant and high-quality liquid assets and supported the development of Islamic finance in the United Kingdom. The United Kingdom had also been heavily involved in the first Pound200 million instruments and had made the United Kingdom the first Western State to issue sovereign instruments.

5.2. Demand factors for Islamic finance in the UK. The United Kingdom is the leading financial market for Islamic finance in the Western world. There are many explanations for the continued growth in the UK. In the wake of the financial meltdown, the effects of which are still affecting global markets, it is becoming increasingly necessary for financial institutions to find ways to expand their market base. According to [14], the Islamic finance industry was worth $ 1.3 trillion by the end of 2011. It is expected to grow even further in the coming years due to the following factors.

• Islamic product differentiation: According to the information HSBC Bank, banks offer different products such as real estate funds, investment accounts, motor financing, corporate accounts, asset financing, security interest savings, and real estate financing that attract a large number of clients, increasing the bank's market share. Through a customer base and increasing assets, the development of distinguished Islamic banking products has also contributed to the growth of Islamic banking in the UK. The results of empirical analyzes indicated that Islamic banking institutions and non-Islamic banks that offer an Islamic window offer innovative financial products and services to the markets. Product differentiation has enhanced the provision of various types of Islamic financial products and services to Muslim and non-Muslim clients in the UK. These products included speculation which is a product that includes profit and loss sharing schemes. Clients are funded to acquire assets, do business and share profits or losses with banks. Other products offered by Islamic banking institutions and conventional banks with Islamic windows, include a financial service for keeping customer deposits commonly referred to as savings. Also, banks offer a *musharaka* contract which is generally referred to as a joint venture, i.e., Islamic banking institutions form a joint venture with customers and share profits or losses.

- Islamic banking reports also indicated that Islamic banking institutions and traditional banks with an Islamic window offer *murabaha* products at an increased cost. Islamic mortgage products are offered in the United Kingdom for buying homes and real estate development in Britain, and *ijarah* is offered to intermediaries, which facilitates leasing. Customers can access at affordable prices, develop and deliver contractual services to market for customers who go into building manufacturing establishments, and offer *takaful* type of traditional insurance products where risk is shared in a transparency approach. This clearly indicates that the development and provision of differentiated Islamic products and services have contributed to the increase in the Islamic banking market. Moreover, there is an increase in Islamic banking networks and an increase in the Islamic banking customer base which has led to an increase in the size of banks' assets and growth in the level of profitability in the UK.
- Political structure: The study revealed that political goodwill and political structure in the UK contribute to the growth of Islamic banking in the UK. The UK government and banking sector governors support and embrace the vision of developing Islamic banking in the UK. The documented report indicated that the government adopts pragmatism and realism in banking development. It is an effort to create competitive international Islamic financial banking products and services and to promote financial inclusion, where people regardless of their beliefs, religions or traditions have access to competitive financial services and products [15]. The support of the government that established financial regulation through the Financial Services Authorities (FSA) and government support for the development of Islamic banking has contributed to the growth of Islamic banking in the UK.
- Flexibility of the legal framework: The legal framework in the United Kingdom is characterized by the presence of flexible legal structures, facilitating the adoption of the financial regulatory framework on credit law and the application of equity principles, under British law, facilitating dealing with property issues that may arise from Islamic banking structures. An additional change in tax systems led to the development of Islamic banking and made London competitive. Opening up to foreign trade centers by attracting more Islamic banks and non-traditional banks that provide Islamic banking services. This contributed to the growth of Islamic banking services in the UK [16].
- The HSBC report indicated that Islamic banks provide banking products and services that comply with UK law, the financial regulatory framework, the legal framework, and regulations. There are no restrictions on Islamic banking institutions. This positive government support contributes to the provision of Islamic products and services to the Muslim population and non-Islamic customers, which increases the bank's market share, as the bank is witnessing a growth in the customer base, opening new branches across the UK which leads to a high level of profitability.
- Brand development and market demand: The results of the PriceWaterCopper Market review[1] indicated that the development of Sharia compliance, market growth, and demand for Islamic products contributed to the growth of Islamic banking in the UK. The report[2] indicated that the demand for Islamic financial services has increased in the UK market. Due to the increasing number of Muslim and non-Muslim clients in the UK resulting in an increase in the bank's client base as well as contributing to an increase in market share, HSBC and Lloyd TSB Bank data indicated that Islamic banks and conventional banks offering Islamic windows boost Islamic product development to an extent.
- Participation of the Muslim community organizations in events in the UK: An Islamic economic institution works to improve the relationship between the Islamic community, banking management, and government. This has resulted in good relations with government bodies such as the Financial Supervisory Authority, Treasury, Commerce and Industry [13]. This has led to the

[1] PriceWaterhouseCooper. Building trust in a time of change Global Annual Review 2013. 2013. URL: https://www.pwc.com/gx/en/annual-review/2013/assets/pwc-global-annual-review-2013.pdf

[2] Ibid.

modification of Islamic banking tax regulations and increased awareness of Islamic banking products and services through participation in international events.

- Increased investment: Islamic banking services contribute to economic growth by improving and expanding the investment portfolio. The information collected from documented reports revealed that Islamic banking and institutions of conventional banking with Islamic outlets enhance investment by financing real estate, providing insurance services, and financing transport companies without interest fees on loans. Many customers and non-customers of Islamic financial products and services invest in income-generating projects without fear of loss as no interest is charged on borrowed capital and banks provide profit and loss sharing structures.

5.3. Challenges and obstacles facing Islamic finance in the United Kingdom. Among the most important challenges facing Islamic finance are as follows [17]:

1. The absence of a reference framework or incubator, whether governmental or non-governmental, that protects and assists Islamic financial institutions in providing solutions to problems and obstacles, helps them succeed and prevents them from failing.

2. There are problems related to Islamic deposit insurance in terms of standards, as the International Accounting Standards Board has not adopted a standard or guidance on deposit insurance that is compatible with Islamic Sharia [18].

3. Difference of opinion among scholars as to whether the practices, products, and services provided by Islamic financial institutions are compatible with Islamic law. Consequently, multiple and diverse opinions emerged regarding the compliance of the Islamic transactions, and this led to people to confusion [19].

4. Islamic banks rely heavily on current accounts, and this necessitates maintaining a large percentage of liquid funds to meet the needs of regular or emergency withdrawals from current accounts. This leads to the loss of a percentage of capital that could have been invested and thus obtaining the revenues necessary for development and investment work.

5. The disputed cases in Islamic banks are subject to the same legal system as in conventional banks, while the nature of the legal system of Islam is significantly different from the traditional system [20].

6. The absence of Islamic banking laws requires the enforcement of agreements in the courts with additional efforts and costs. Therefore, banking and corporate laws in many countries may need amendments to provide a level playing field for Islamic banks. Moreover, the international acceptance of Islamic financial contracts requires that they be compliant with Islamic law as well as acceptable under major legal systems such as common law and civil law systems [20].

7. The absence of any legal cover so that the Islamic bank can protect itself, in case the customer refuses to pay the rent in the lease contract.

8. Deposits in Islamic banks are based on the principle of profit and loss (participation or *Murabaha*), and therefore if something happens and the bank suffers a loss, this loss is transferred directly to the depositor. This fear of loss is the biggest obstacle to mobilizing deposits in Islamic banks [20].

9. Some dealers using Islamic financing methods, including the *Murabaha*, use several methods to deceive Islamic financial institutions to obtain cash in a way that is not permissible by Sharia For example, it is possible to agree with the seller to return the goods to him after the institution buys them and sells them to the purchase orderer.

10. Islamic finance lacks any risk assessment mechanism. With the absence of clear and explicit legislation and laws that define the mechanism of work of this sector of finance, banks and Islamic financial institutions face many risks, challenges and problems [21].

5.4. The future of Islamic finance in the UK. The challenges, mentioned previously, does not prevent the possibility of the continued growth of Islamic finance in the United Kingdom, The Islamic model of business financing is becoming increasingly popular, and witnessing rapid growth in the United Kingdom, as the demand is increasing by Muslim entrepreneurs, who try to stay within the confines of Sharia or Islamic teachings.

The United Kingdom, like other Western countries, is looking forward to the development of Islamic finance, based on the search for earning and the multiplicity of sources of funding, to face the global challenges that have become imposed by globalization and capitalism, Among the manifestations of its future directions to adopt this financing are the following:

1. Increasing demand for Islamic finance products by British small and medium businesses: The increasing availability of Islamic finance comes in response to an increase in the Muslim population in the United Kingdom, with 2.6 million in 2010, according to a 2011 report by the Bee and Population Research Center. It was found that the projected Muslim community will double to 6.2 million by 2030. In 2012, it was estimated that there were 10,000 Muslim-owned businesses in the UK, with at least half of those companies based in London. While most of its financing is considered to be within the financing of small businesses and is carried out through traditional financing, 20% of the most devout Muslims are concerned about traditional financing tools and are looking for alternative legitimate options such as Islamic financing based on *Murabaha*, *Musharaka* or *Ijarah* [22].

This is evidence that there is a direct equation between the increase in the number of Muslims in the United States of America and the increase in the demand for Islamic financing, which proves the merit and continuity of this financing, to double the number of Muslims in the future, and this was confirmed by several reports on the increase in the number of Muslims in the United Kingdom, the greater the number of Muslims.

2. Expansion of Islamic financial and banking institutions in the United Kingdom: As a result of the increasing desire of small and medium-sized companies owned by Muslim investors and businessmen to obtain financing compatible with the provisions of Islamic Sharia, it will provide opportunities for British financial institutions and banks, whether traditional or operating according to an Islamic method. Noting the growth in the demand of these institutions for Shariah financing, and therefore the offer must respond to these requests."

Some experts expect that the British financial market will constitute a great opportunity for Islamic banking institutions, such as banks, takaful insurance companies, *Murabaha* companies, leasing, and others, to break into this technical market that is full of future growth opportunities, especially since there is an increasing demand from international and Arab investors, in general, to invest in Islamic markets, especially Asian and Western markets. Among them, Malaysia and Britain are pioneers in granting Islamic financing to small and medium-sized enterprises and companies, as these companies are the backbone of trade and a vibrant and sound economy in any country. Government funding for large companies, especially after the recent financial crisis.

Some also believe that global Islamic banks will compete with each other for a share of the British market, although Arab, Pakistani, Indian, and Malaysian banks may have branches that compete with the branches of Islamic banks in the United Kingdom, which are few, and traditional banks and traditional lending institutions may enter the competition. It may open windows for Islamic finance and banking, so that its clients from the Muslim community, especially in areas with a high Islamic concentration, do not go to other competing banks, not only this, but the financial market may enter global and local investment funds to obtain a share of financing the projects resulting from those companies [22].

Finally, it is expected that the government may enter into this type of banking service through a bank that it represents, especially when the percentage of demand for Islamic finance increases, 25 percent of the total funding granted to these companies, to issue Islamic bonds (i.e., bonds without interest in return for a specified return) as did the beginning of the Malaysian market, And then the experience has developed of issuing Islamic Sukuk in its modern sense to finance projects in cooperation with medium and large institutions, mostly [22].

6. Conclusion

The banking sector in the United Kingdom has witnessed great and continuous developments.

Through the previous discussion, the researchers reached the conclusions that can be listed as follows:

- The Islamic Bank is a banking institution that collects financial resources and employs them by Islamic Sharia regulations to achieve profit.
- The first breakthrough for the establishment of Islamic banks in the United Kingdom was in the eighties of the last century when the first Islamic bank (Al Baraka Bank) was established. After that, some laws and regulations related to either supervising the work of Islamic banks or related to service and product providers were issued and amended. Currently, it has become one of the most developed countries in the Islamic banking industry.
- Islamic finance is used in the United Kingdom for several purposes, either to purchase securities (Islamic Sukuk), purchase real estate, or finance

working capital. Funding is also directed to several sectors, including insurance, real estate, the family sector, education and health, transport and communications, etc.

• The following activities may be considered in the United Kingdom to improve the Islamic banking system:

• An advanced infrastructure for Islamic banks can be established in the United Kingdom, supported by modern technologies, especially digital technologies, and open to Islamic science, in addition to establishing law firms working to draft Sharia contracts, as well as brokerage offices.

• Islamic banking laws in the UK may be made independent of conventional banking laws.

• Establishment of specialized centers for education, training, and promotion in the United Kingdom for the Islamic banking industries.

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