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Islamic Finance: History, Development, products and its challenges

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ABSTRACT

Islamic banking an alternate to interest-based banking is not banking in the traditional sense of the word. It derives its inspiration and guidance from the religious edicts of Islam and has to conduct its operations strictly in accordance with the directives of Shariah. This paper will illustrate the historical development of Islamic banking industry. In addition, it will provide information about the Islamic banking development its products and the challenges it is facing. This information provides important context for understanding modern-day financial practices. This study could provide a systematic documentation of the rapid growth in the Islamic banking industry and able to attract new participants. However, the rapid development in the global financial markets poses various challenges to Islamic banking in the present era. These issues and challenges need to be addressed very carefully in order to sustain the rapid growth it experienced before. This paper highlights the various developments, issues and challenges confronting the Islamic banking to offer recommendations for further,improvement.

Keywords: Development, Historical, Islamic banks, products trends and challenges.

I.INTRODUCTION: A PERSPECTIVE ON ISLAMIC BANKING

1.1. Introduction

The banking system is the lifeline of any modern economy which helps in the financial intermediation by mobilizing deposits and disbursement of credit. *Banking* in a modern sense is the process of accepting, for the purpose of lending or investment, of deposits of money from the public, repayable on demand or otherwise and withdrawable by cheque, draft, order or otherwise. The principal function of a Bank is to bring into a common fund or pool of idle money of the general public, for the purpose of making advances to others, to gain a return in the form of interest, fee and dividends in making advances and providing services to others. Interest being the cogwheel of the modern banking, is strictly prohibited in Islam and hence there can be no banking system in Islam as Interest. An Islamic bank is a financial institution which identifies itself with the spirit of *Shariah*, as laid down by the Holy *Qur'an* and *Sunnah*, as regards its objectives, principles, practices and operations. The veterans of Islam propose that a sound system of Banking is possible in Islam which should be based on the

concepts of *Mudharaba, Murabaha and Profit and Loss Sharing (PLS).* Islamic finance was practiced predominantly in the Muslim world throughout the Middle Ages, fostering trade and business activities. In Spain and the Mediterranean and Baltic States, Islamic merchants became indispensable middlemen for trading activities. It is claimed that many concepts, techniques, and instruments of Islamic finance were later adopted by European financiers and businessmen. Islamic Banking is no longer a novel experiment but a practicable reality. The modern Islamic Banks have positioned themselves sustainably into a full-fledged Interest-free system with a range of competitive products to offer so as to compete with the Modern Interest based Banking system. Besides their range of equity, trade-financing and lending operations, Islamic banks also offer a full spectrum of fee-paid retail services that do not involve interest payments, including checking accounts, spot foreign exchange transactions, fund transfers, letters of credit, travelers' cheques, safe-deposit boxes, securities safekeeping investment management and advice, and other normal services of modern banking. Islamic banking because of its value-orientated ethos enables it to draw finances from both Muslims and non-Muslims alike. Islamic banking may not be a totally new concept, the widespread expansion of this form of banking is certainly a fairly recent phenomena. In recent years, several Muslim countries have made ambitious attempts to practice Islamic banking. There are more than 300 Islamic banking institutions and these institutions not only operate in Muslim countries, but have also gained footing in non-Muslim countries. Iran appears to be particularly active in transforming banking and financial sectors completely in line with the dictates of Shariah. From early twentieth century when the banks were institutionalized in economic systems, number of Muslim scholars attempted to solve the usury problem of traditional banks. Among the Muslim scholars, who investigated about this issue, are Shahid Seyyed Mohammadbaqr Sadr, Shahid Beheshti, Shahid Motahhari, Qureshi, Iqbal ,Mohsen Khan and Arif.The practice of Islamic banking has become a fast growing and widespread phenomenon, not only in the Muslim countries of the Middle East, but also in countries such as Indonesia, Bangladesh, Morocco, Switzerland, etc. Beginning with the first Islamic bank established in Cairo, Egypt, in 1971, the movement towards banking practices based on Islamic Laws (Shariah) has proceeded at a phenomenal rate. Today, Islamic banks operate in over 45 countries, some of which (Iran and Pakistan) have completely changed their banking system to conform to Islamic Laws.

Islamic Banking is a financial institution which operates on the objective of implementing economic principles and Islamic finance in the banking arena (Kamal et al., 2008). The secretariat of Organization of Islamic Cooperation (OIC) has defined Islamic banking as: ''...An Islamic bank is a financial institution whose statute, rules and procedures expressly state its commitment to the principle of Shariah and to the banning of the receipt and payment of interest on any its operations...'' From the above definitions, Ali and Sarkar (1995) concluded that Islamic banking system is a system based on the following Sharia principles: 1. Prohibition of riba (interests). 2. Prohibition of gharar (uncertainty, risks, speculation). 3. Involves halal activities (permitted by Islam). 4. Based on justice (which is the ethics and aim of the religion). Islamic banking is also a normative concept that can be defined as banking management that is compatible with the system of Islamic values (CIFP, 2006). Ideally, a banking system can be regarded as Islamic when its business conducts are based on profit and

loss sharing, based on a participant's equity. The basis of the business is sharing with the customers, not as debtor and creditor. It does not only mean an elimination of interests, but more than that (Joni and Hadenan, 2006).

1.2 Background of Islamic Banking

Although the establishment of Islamic banking has only become a reality in the 1960s, it does not mean that Islamic banking activities do not exist in the history of Islam . Banking activities had begun in the Arab land with its operation based on riba. During that time the Arabs also gave their money to another party for trading through the methods of al-Qirad or al-Mudarabah to gain profit. These methods were famous among both the Quraisy Arabs and the Jews during that time (Karim, 1996). Activities such as receiving of deposits, loans, money exchange and other exchange bills that are considered as modern banking practices took place during the time of early Islam and the time of Islamic development. During the time of pre Islam, the city of Mecca was the center of trade and was the route of traders from the north and south. Ultimately, activities such as depositing and loans expanded rapidly and business that involve exchange of money became one of the main activities (Sudin, 1996). Prophet Muhammad before the time of his prophet hood was well-known for his noble conducts such as honesty and integrity. The Arabs of his time were attracted to these qualities and had appointed him as their wealth keeper, until he migrated to Medina. Before his migration, he appointed Ali as the trust keeper, and to return all the assets to their respective owners (Hamoud, 1985). Apart from that, during the time of the Prophet there was also a man by the name al-Zubayr al-Awwam who took the role as a bank, and kept the deposits for other people. However, this form of money-keeping was modified by him to loans. Abd Allah bin Al-Zubayr, the son of AlZubayr narrated that when people brought their money to be kept by his father, he will tell that person that the money is being borrowed, instead of being deposited, as his father was worried that he might lose the money (Sudin, 1996). Al-Zubayr's action resulted in two main objectives; the first is by taking the deposit as loans, he has the right to use the money. Secondly, if the deposit is not used, the owner will experience loss; so if it is regarded as a loan, it is safer as the borrower is responsible in returning the money (Sudin, 1996).There are a few lessons from the tale of Al-Zubayr in the history of early Islamic banking. Firstly, the concept of deposit was changed, which was originally a trust to the borrower. Apart from that, the sum that was deposited by the people does not belong to certain individuals only, but all the people. The second lesson is from the way money was used, where the Meccan of that time only knew two ways of using money; either giving it to another party to be traded through alQirad or mudarabah and the profits sharing or lending the money to gain benefits. These practices were widely practiced before the coming of Islam either among the Arabs or between the Arabs and the Jews who lived in the Arab Peninsular. However, the coming of Islam has resulted in complete prohibition of all activities that involve riba, and this prohibition did not prevent the development of trade that took place either nationally or internationally (Sudin, 1996). There were evidences that the development of Islamic banking foundation had started since the time of the Prophet. Among these foundations was the development of Bayt al Mal, which was the central bank for Islamic countries and played a

role in aiding the poor, especially the Muslims. The mosques of that time were organized by the Prophet as treasury. Nevertheless, Caliph Umar al-Khattab (634-644 A.D) during the time of his administration had reorganized the operation of Bayt al Mal by making it a separate entity from the mosque. Most of the resources for Bayt al Mal came from two main sources; primary and secondary. The primary sources include zakat (alms for the poor or wealth tax), kharaj (land tax), jizyah, donation and others. The secondary sources on the hand are property without owner, properties of apostates, and properties of individuals without legal heir (CIFP, 2006). The funds collected from these various sources were channeled into two types of spending; firstly responsibility to the nation such as for defense and the salary of government employees. Secondly is the public expenditure such as road construction and irrigation (CIFP, 2006). The finance management of Islamic countries of that time was mostly conducted under the supervision of Bayt al Mal, who did not receive deposits nor lend money to people. However, there are evidences that Bayt al Mal did give loans to certain individuals. An example can be seen when the sons of Caliph Umar al Khattab, Abd Allah and cUbayd Allah received loans from Bayt al Mal in their journey from Medina in their business venture. This was recorded in the Muwatta' Imam Malik. Caliph Umar stated that the transaction that took place between his two sons and the Bayt al Mal was based on the Mudarabah principle and he asked his sons to give a part of their profits to Bayt al Mal (CIFP, 2006). Other activities such as money order and bills exchange also took place in the era of early Islam. For example Ibn al-Abbas had once taken Warik2 and noted the receipt of acceptance to Kufah (CIFP, 2006). Another example was Abd Allah bin al-Zubayr (624 A.D-629 A.D) who once accepted money from the people of Mecca, and accepted the confirmation of acceptance to be sent to his brother Musc ab bin al-Zubayr in Iraq, where the depositors can retrieve their money there (Sudin, 2005). On the other hand, Sayf al-Dawlah al-Hamdani (970 A.D) was the first cheque user in the history of Islamic banking system (Hamoud, 1985).

1.3 Literature Review

During the past few years, Islamic banking practices have been at the center of many public policy debates and numerous surveys of the extensive literature on Islamic banking have been written over the years. Among descriptive and empirical Papers that have been written international in relation to the impact of Islamic laws (sharia) on banking system. Noor Ahmed Memon (2007), in his paper entitled "Islamic Banking: Present and Future Challenges", emphasizes the role of Islamic banks as financial intermediaries and the importance of financial intermediation for society. It argues that Islamic Banks entering directly into trade, industry and agriculture etc is not beneficial because it means leaving the role of financial intermediation for others. The basic principle of Islamic banking is the prohibition of Riba or interest, which has seldom been recognized as applicable beyond the Islamic world, but many of its guiding principles have, consciously or unconsciously, been accepted, M. Raquibuz Zaman and Hormoz Movassaghi (2001), in their article entitled "Islamic Banking A Performance Analysis", study reviews the growth of Islamic banking since its inception nearly four decades ago. It examines the major products/services offered by various Islamic banking institutions (IB) as well as analyzing such institutions' financial performance based on the latest data available. The study concludes that

some of the practices and the financial instruments used by the Islamic banks do not seem to conform to the traditional Islamic principles, and it offers suggestions for the improvements.

Alkhatib and Harsheh (2012) examined the financial performance of five Palestinian commercial banks using three indicators: Internal–based, Market-based and Economic–based performance measures. Return on Assets, Tobin's Q model and Economic Value add methods have been used for measuring these three indicators. Correlation and multiple regression analysis have been applied in this study to analyze the influence of bank size, credit risk, operational efficiency and asset management on financial performance and to create a good-fit regression model to predict the future financial performance of these banks. As findings, the study has indicated that there is a significant impact of bank size, credit risk, operational efficiency and asset management on financial performance of Palestinian commercial banks.

Shompa (2016) found that the performance of Al-Arafah Islami Bank Limitedwas better in some ratios like cash conversion cycle, creditors' payment period, credit risk and growth. But on the other hand, the performance of Islami Bank Bangladesh Limited was better in some ratios like debtors' payment period and leverage. Overall results showed that the working capital management of Al-Arafah Islami Bank Limited is better than Islami Bank Bangladesh Limited. Islam and Ashrafu zaman (2015) found no significant difference between the Islamic banks and conventional banks regarding capital adequacy, management capability and earnings but found a significant difference regarding asset quality.

II.CHALLENGES FACED BY ISLAMIC BANKS

Islamic banking is still highly nascent as compared with conventional banking, and this is an immense factor contributing to the range of challenges IBs are currently facing;

2.1 Lack of standardized regulatory frameworks

Khalid and Amjad (2012) assert that due to the novelty of Islamic banking systems, their legal and regulatory frameworks are still quite complex and un-standardized. Therefore, they tend to follow varied accounting and other practices with no universally recognized standards. Some of them follow International Accounting Standards (IAS), others adhere to standards issued by Accounting Auditing Organization for Islamic Financial Institutions (AAOIFI), while some adopt accounting standards prevalent in their local markets. This issue results in perplexity due to the heterogeneity in accounting practices and disclosure of Islamic banks as asserted by Sultan (2006). However, it should be noted that AAOIFI and Islamic Financial Services Board (IFSB) have been working to develop universal accounting and auditing practices for Islamic banks. AAOIFI has developed more than 63 accounting standards for the guidance of and adoption by 130 member institutions, representing 30 countries as stated in IFSB (2012).

2.2 Unsatisfactory record for innovation

Furthermore, Al-Janabi (2006), Al-Ajmi (2012) and Siddiqi (2012) all argue that Islamic banks have a very unsatisfactory record for R&D and innovation, which has lately led to a mounting pressure on them to develop genuinely Islamic and productive products that differ substantially from conventional practice. Haron and Ahmad (2010), amongst others, have provided empirical evidence that Islamic banks use conventional profitability theories in determining returns on their products

2.3 Shortage of *Sharia'a* experts and human capital resources

Khamis et al (2010) emphasize that there is still an acute shortage of skilled human resources in Islamic banks and inadequate training is given to staff on how to incorporate fundamental Sharia'a- complaint Islamic banking principles. Most importantly, there is an evident scarcity of competent Sharia'a experts in the Islamic banking industry, with a small group of experts serving on several Sharia'a boards of Islamic banks worldwide. Mathews (2008) and Tett (2009) declared that *Sharia'a* experts earn as much as $88,500 per year per bank and in some cases, charge up to $500,000 for advice on large capital market transactions. On the other hand, *Sharia'a* scholars at small Islamic banks have little insight into the complexities of present-day financial markets. Nevertheless, Islamic banks are urged to build up a strong base of research &training to develop a corps of *Sharia'a* experts with high moral and professional integrity. They should also establish a central *Sharia'a* board and an external audit committee to provide a truly independent scrutiny of the their adherence to *Sharia'a* principles.

2.4 Risk Management Challenges

Moreover, Al-Tiby (2012) asserts that IBs face another crucial challenge in improving their risk management strategies and corporate governance because of their adhere to *Sharia'a* principles. They are currently exposed to all types of risk including those faced by CBs and those unique to IBs. Ikha and Abdullah (2011) declare that the assets and liability structures of IBs have unique risk characteristics as a result of the Islamic banking model evolving into pure Islamic modes and instruments.

III.OTHER CHALLENGES

- Shortage of experts in Islamic banking: The supply of trained or experienced bankers has lagged behind the expansion of Islamic banking. The training needs affect not only Arab domestic banks, both Islamic and non-Islamic, but foreign banks as well.
- Absence of accounting (and auditing) standards pertinent to Islamic banks: Uncertainty in accounting principles involves revenue realization, disclosures of accounting information, accounting bases, valuation, revenue and expense matching, among others. Thus, the results of Islamic banking schemes may not be adequately defined, particularly profit and loss shares attributed to depositors.

- Lack of uniform standards of credit analysis: Islamic banks have no appropriate standard of credit analysis. Similarly, there is a widespread training need involving related aspects such as financial feasibility studies, monitoring of ventures, and portfolio evaluation
- Potential conflicts with central banks: Islamic banks have been established as separate legal entities; therefore, their relationships with central banks and/or other commercial banks are uncertain. Problems may be further aggravated when an Islamic bank is established in a non-Muslim nation, and is subject to that nation's rules and requirements
- Instruments that meet the demand of specific investment requirements: One of the biggest challenges facing institutions is the provision of short-term investment instruments. Several institutions have tried to develop high quality short-term instruments, but have been hampered by their ability to generate assets, by their credit ratings, and by liquidity.

Given that necessity is the mother of all inventions, it is perhaps a good thing that Islamic bankers face a wide array of problems that they must surmount to guarantee the industry's future. Some of these are tangible and relate primarily to financial engineering and an inability to copy conventional products due to Shari'a laws. Other problems relate to varying interpretations of Shari'a laws, which lead to the inability of one Islamic bank to copy another Islamic Bank's products.

IV.PRODUCTS OF ISLAMIC BANKING

- **Murabaha**

It is a conract of saleand and not any financing .It is a cost plus profit contract where in the seller discloses the cost and at the same time add profit to it.

Features

- Payment be made on spot
- In lump sum
- Installments
- It is not based on deferred payment

Rules

- Assets to be sold must exist
- Sale must be unconditional
- The assets should not be used for unislamic purpose
- Assets should be in the ownership of the seller at the time of sale

Steps to be followed:

- Agreement is made between bank and the client
- Client is made as agent to avoid disputes

- Bank gives money to agent or supplier for purchase of goods
- After authorization the bank pays money through money order to client for supplier
- The agent takes possession of goods on behalf of bank
- The client makes offer to purchase the goods from bank through declaration
- Bank accepts the offer and the sale is concluded and then the client pays agreed price to bank according to an agreed schedule.

- **Musharaka**

A partnership between two or more parties whereby each partycontributes a specific amour of money in a manner each party gets a right to deal in the assets of the partnership,the profit is distributed according to the partnersipand loss is borne as per contribution.

Principles

- **Parties**

There are two or more than 2 parties in a contract.

- **Capital**

The capital should be in monetary assets, tangible assets.

Should be paid in lump sum or installments

Debt alone can't be taken as a base of musharaka

- **Management**

All parties are allowed to take part or all the partners agree upon a point as only one partner acts as manager aor third party acts as manager.

- **Guarantee**

A party can't guarantee capital of any other party accept if a party in case when one party provides personal guarantee but third party can cover the cases of negligent or the party who breaches the trust.

- **Profit distribution**

The ratio of profit is agreed upon at the time of entering a contract .Te profit should be in terms of percentage and not in lump sum.

- **Maturity and termination**

- **Sukuk**

It's derived from an Arabic word "sakk" which means certificate or written document. Sukuk represents ownership of certain assets. It is an Islamic financial certificate similar to bond without interest. It is issues on the basis of shariah complaint.these are traded in secondary market and are subscribed by SPV. It's not a recent phenomenon. It's as old as Islam.

Types of Sukuk

- Sukuk Al-ijarah
- Sukuk al murhaba
- Sukuk al-istisana
- Sukuk al-musharaka
- Sukuk al-isthitmas

Sukuk is an asset linked certificate where the income /profit to the certificate holder is derived from an underlying asset.sukuk represents certificate of equal value representing undivided ownership

Advantages of sukuk

1. A company can tap into an international market to raise funds and attract global investors
2. Can liquidate in secondary market
3. Pricing is very competitive

Types of sukuk

1. Asset based sukuk: asset remains in the ownership of investor and payoff to the investor is related to the performance of asset.
2. Debt based sukuk: Asset doesn't remain in the ownership of investor and payoff to the investor is inked to the credit risk of originator.

- **Takaful**

Mudarabah is an equity-based contract offered by Islamic banks, which is based on the Islamic Shari'ah. It is a special kind of partnership, where one partner provides money to another and the latter manages the money by investing it in commercial projects in order to earn profit which is shared among the two in a predetermined ratio. The first partner who provides the money to the second is called "rabb al maal (capital provider)" while the second partner is known as "mudarib (manager)".

- The capital provider may not interfere in the routine transactions of the manager, but may provide general technical advice, and the manager should provide periodic reports to the capital provider. The manager also has a choice to add their own capital to what is provided by the capital provider with their consent, in order to increase profits. Profits from the venture are shared between the capital provider and the manager in a predetermined ratio, while losses are borne solely by the capital provider, provided such loss is not due to the manager's negligence or violation of specified conditions. The capital provided by the rabb al maal is returned by the manager/mudarib when the contract ends or is dissolved. The contract can be terminated by either of the parties by issuing a notice. Maximum term of the contract may or may not be specified at the

beginning of the contract (there is a difference of opinion in this), but minimum term cannot be specified. f the contract becomes void due to any reason, the manager's status becomes that of an employee which means that he receives no share of profit but gets an ordinary pay (Ujrah Misl), a salary according to the market value for the work done by the manager; which cannot exceed the profit share.

- No fixed amount, whether profit or wage or commission is settled in favor of either the capital provider or the manager but percentages are specified, which is permitted by the Shari'ah, as it is linked directly with the performance of the business and does not constitute interest. Mudarabah contracts are of two types. The first one is a contract in which the capital provider specifies which projects to invest his/her money in, and the manager is supposed to restrict the investment to the specified businesses; this type of contract is known as Al Mudarabah al Muqayyadah (Restricted Mudarabah). The other type is where the capital provider does not specify any project for investment and the manager has choice; this type of contract is known as Al Mudarabah al Mutlaqah (Unrestricted Mudarabah). If the manager wants to make an extraordinary investment which is beyond the normal routine of business, this cannot be done without the express permission of the capital provider.

- **Takaful(Islamic insurance)**

The concept of takaful, or Islamic insurance, where resources are pooled to help the needy does not contradict Shariah. The concept is in line with the principles of compensation and shared responsibilities among the community. It is not a new concept, in fact it had been practised by the Muhajrin of Mecca and the Ansar of Medina following the hijra of the Prophet over 1400 years ago. It is generally accepted by Muslim Jurists that the operation of conventional insurance does not conform to the rules and requirements of Shariah.

Conventional insurance involves the elements of uncertainity (Al-gharar) in the contract of insurance, gambling (Al-maisir) as the consequences of the presence of uncertainty and interest (Al-riba) in the investment activities of the conventional insurance companies which contravene the rules of Shariah. Takaful is an alternative form of cover which a Muslim can avail himself against the risk of loss due to misfortunes.

The insurance providers in year 2001 and beyond should find Takaful sector an exciting sector of insurance to be in. This presentation focuses on growth potential that exists in Takaful with great many opportunities for innovative development of unique products, techniques and systems needed to fill gaps in insurance penetration in many of the markets around the globe. This paper presents an insight into the size of the current takaful industry worldwide and sketches the signs of change that may lead to realization of the potential that exists in this sector.

- **Istisana**

Its derived from sana(manufacture)contact of sale of specified items to be manufactured or contructed with an obligation on part of the seller to deliver them to the purchaser upon completion.

Principles

- Contracting party
  They should have the legal capacity and must be same
- Subject matter
- Two components i.e. object and price
- Identified raw materials which can be owned by seller or third party seller
- The asset should be transferrable
- Conclusion: proper offer and acceptance should be there
- Timing and specification : modifications are allowed if both parties agree upon.
- Delivery and disposal: prior to delivery or on the date of delivery but if delivered assets doesn't match with specification then purchaser has right to reject.

- **Salam:** It's a sale contract .It's the purchase of commodity for deferred deliverywith immediate payment.

Principles

Subject matter: it should be clearly defined .The underlying asset i.e. the goods which can be weighed, measured, counted. The specification agreed upon if not delivered can be cancelled. It should be easily available .it should not be specific or unique .if the seller fails to construct it, can easily get from market.

Price

The price should be known and is paid in advance i.e. its paid up front.

Conclusion

Proper offer and acceptance between two parties.

Delivery of subject matter

Clearly agreed upon at the time of entering into the contract.

- **Islamic Bank**

According to Islamic law, partnerships are of various kinds but one best to the purpose of banking is a partnership whereby two or more persons join in business, each of them being an agent for the other. The capital is not necessarily to be shared equally and profit to be distributed according to the terms agreed upon between them. Under the principle of what is not forbidden is permissible, according to *Muslehuddin* (2008), an Islamic Bank may be a company, an association or a concern owned by an individual. An Islamic Bank would be a commercial bank. While the objective of the Bank would be to earn profit, it would identify itself with the *Shariah* as regards objectives, principles, practices and operations. Islamic Bank would undertake all normal banking business as is done by interest-based banks but the Provisions of Shariah would be kept in view at all times. The Bank would develop risk-bearing but competitive products for deposits / investments wherein depositors / investors are given reasonable assurance of higher returns as also of safety of their funds. This Bank

would also develop innovative but competitive products for financing which are not only compatible with *Shariah* but also cater to the needs of traders and industrialists etc., in the modern complex world which is ever - changing.

V.CONCLUSION

Islamic finance is a centuries-old practice that is gaining recognition throughout the world and whose ethical nature is even drawing the interest of non-Muslims. Given the increased wealth in Muslim nations, expect this field to undergo an even more rapid evolution as it continues to address the challenges of reconciling the incongruence among the world of theology and modern portfolio theory. Though a lot of research has been done on the topic of Islamic Banking and Finance, no significant progress has been made in implementing the Conceptual framework in practice. Keeping in view the risks involved in banking business, Islamic Banks should resolve to introduce various innovative products through which they can minimize their risk. This can be done by designing products in such a way that the overall portfolio of the Bank has a well balanced mix of all the *Shariah* Compliant mechanisms.

Islamic Banking or Interest-Free Banking is not some alien concept, it is very well practicable and coherent as to be accepted as an alternative to the Conventional Interest based system of banking. It however, needs a serious thought from all the corners to put it into practice; Willingness on part of Consumers, Intensive Efforts by Banks and suitable and favourable norms (and legalities) by the regulators. Considering such steps to be taken across board, and if really Islamic banks succeed in demonstrating a practical example of socio-economic justice by gradually enhancing their Interest-free Financing and also achieve further satisfactory operational results, there is no reason why this mechanism cannot be accepted as a sustainable mode of Banking worldwide.

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