



Islamic banking in UK, challenges & opportunities

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Abstract

Islamic banking signifies to a system of modern banking which is very popular in new world. At present era it has become very hot topic in western marketplace especially among Muslim community in UK. About 2 million Muslims have acquired their code of life according to their philosophy, rules and ethics from Sunnat, Holly, and Quran. Islamic banking system follows Shariah law or Shariah compliant and it on work four principles such as Haram refers to avoid certain transaction, Gharar refers to avoid speculation activities, Riba refers to interest free banking system and Zakat refers to different tax system. Muslim community is promoting well financial condition of the United Kingdom and that is the reason government of UK more appreciate of this Muslim banking sector. As Muslim community is growing rapidly in UK where Shariah law is completely followed by Islamic bank on the other hand investment services are delivering according to rules and ethics of Shariah law between the two banking system. This requires a high degree of innovation like as a range of new products for customers that is the reason this field is extremely dynamic. This banking got more popularity due to its interest free nature of this banking system because riba is strictly banned in Islam because interest charges always lead to credit crises and most of the countries facing same problem due to taking interest.

In UK Islamic banking system achieved outstanding popularity and growth due to growing population of Muslim community and bank policies which offers appropriate financial solutions and are more ethical to the common public. The implementations of these banking rules are titled for facing the barriers from common public and conventional banking financial policies. Here a lot of obstacles in the implementation of this banking in western states because of several rules of Shariah compliant, besides this there are several reasons which create problem like as FSA and English Government. Right now Muslim financial system is at initial position so it can take few time to get success, growth and development economically on large scale in the England and across European countries.

Keywords: islamic banking, muslim community, shariah law

Introduction

Introduction of Islamic Banking gives an idea about the evolvement of Islamic Banking and operations associated with it. This chapter also introduces the functionality of Islamic Banking across the globe and within the UK. Conventional system of rules regarding Islamic banking and finance are existing since a long run, but Islamic banking and finance industry begins with the value of resources, and monetarily doable in 1963 which were due to Egypt's business. Since 1980 the arrangement of financial resources and funds came up at the great pace. Due to introduction of Islamic Banking it comes into wide areas of banking and finance like insurance, risk management, wealth management, asset management etc. Since its introduction it has always shown tremendous growth, which led to increase in the development rate. The development rate is increased as high as at the rate of 12 to 16%. The ever first Islamic bank to be introduced was Dubai Islamic Bank which was founded in year 1975. It came up with the good success rate. This bank is well known for the return rates which are high as compared to conventional other banks. This bank can be now located in 48 other locations (Platt 2008)^[16].

Islamic Banking is not only limited to Islam it has wide acceptance across the globe and even in Europe. It is

especially followed across the United Kingdom. In last five year the United Kingdom has shown a positive growth rate of financial market which is seen as the area where the Islamic Banking shows bright chance to grow.

Islamic financial laws were followed by some Islamic country such as Pakistan, Iraq, Sudan etc. and other countries have conservative Islamic banking some of these nations are as Bangladesh, Egypt etc. Islamic banking in the UK is following the Sha'riah Law as per norms. Other banks are delivering and performing on sound and feasible ground.

About Sha'riah Law

Islamic banking uses the theories of Sha'riah law. Sha'riah law proposed solution all the problems prevailing within the Islamic Bank. Islamic banking has unfavorable implication on a person as well as on our societies that's why interest income is not acceptable within the Islamic bank. Since banking systems are associated to interest based systems, so the main focus of customer is on the interest only. They are not interested in the generation or creation of wealth and funds for society which largely affects the other classes and section of societies. Rather they are primarily concerned about the generation of value for them. Thus sha'riah law affects the society aspect such as income, unfair allocation or distribution

of money. Funds are not transferred to the customer instantly in Islamic banking, services is offered to customer and followed by allocation and distribution of returns and interests (Usmani 2005).

Musharaka, Murabaha, Mudharaba and Ijarah are some of the various methods practiced in Islamic Banking. These laws are based on the rules and regulation of investment, standard pre-defined sets and resource allocation and funds distribution. These are generally preferred due to the fact that they are considered to be risk sharing system as they do not burden the party of the complete risk involved in it. Rather they share the risk.

Principle of Islamic Banking

Islamic Banking as the name suggests follow the principles and code as stated in the Islam. It follows the learning from the Islam and believes in the ideology of Islam and function accordingly. Actions and code of conduct which is practiced in Islamic Banking are taken from Holy Quran. It never disobeys the law set in Islam.

Sha'riah literally means the code, principle and way of life in business, profession or personal life. In the research all banks are closely linked to personal finance and investment for themselves personally and for the society also. The main principles of Islamic Banking are Gharar, Haram, Riba and Zakat. Gharar is mainly focused onto the abolition of activities which involves guesswork. Haram is the rule in which removes such rules and regulations in which the use of some products and services are restricted for Muslims. In the Riba, the transactions which do not have some sort of interest equipped are being restricted. Finally coming over to Zakat, in this there will be some sort of tax employed which is according to Islamic specifications and followings. These are originated from Islamic dictionary only. Their detailed explanation has been given below:

Main Reason behind the Development of Islamic Banking in UK

When it is about the increasing Islamic banking in United Kingdom, then the main reason behind it is the growing percentage of Muslims in the country. This is the most prominent factor which led to the development of Islamic banking there.

The number of Muslims in UK has been raised rapidly to 2.5 million till 2008 (*National Statistics Survey 2008*). There has been an increase of nearly 50000 Muslims in UK which is nearly 3.3% of its total population in just four years (*The Times*). So in order to maintain the dignity of their religion and the holy book Quran some steps were taken in order to facilitate these Muslims with such banks which follow their norms. One of such bank is Islamic Bank of UK which is fully following Sha'riah laws.

Research Objectives

1. To study the perspective of expansion of Islamic banking in UK
2. To determine the framework applied by the UK
3. To determine the impact of various factor of UK society and norms on Islamic banking and vice versa
4. To study the importance of Islamic banking in UK

5. To study the future prospects of Islamic Banking in UK

Literature Review

Islamic banking in UK

The Islamic banking is the term related to the following of banking according to Islamic rules and regulations. There are few such banks in UK and this banking started in the year 2004. This banking followed the sayings of their holy book Quran. The particular bank is Islamic Bank of Britain. They said that the financial service is not good to British Muslims. It is the first bank which is claiming and operating in UK. It is on the whole related to Islamic principle. It also for those people whose are non Muslim as these non Muslim peoples are permitted to hold the account. Islamic bank of Britain was formed by a group of investors from the Middle East to take advantage of the growing market for Shari'ah compliant. Shari'ah complaint the financial service in UK in 2002 is needed in this bank and they would be accepted by the financial services authority. The Islamic bank is also available for public i.e. it is not focused for a particular community or people who follow Islamic religion. Islamic bank can also be defined as the support with which Muslims are able to earn for their livelihood. The representatives of the Shariah Bureau of bank Indonesia are responsible for the super vision and development of Islamic finance and will focus on the experience and growth of Islamic bank in Indonesia. Islamic banking is a phenomenon involving a variety of institutions and instruments. Islamic instruments are narrow group of finance instruments. Any transaction with any distribution of proceeds can be build up in to sale, partnership, business, or a loan. One goal of Islamic bank Indonesia is promoting to increase the proportion of financing involving such things. Islamic financial products are available in the UK from a high number of high street banks which offer current accounts and mortgages modified for Muslim (*Briefing note 2006*).

Background of Islamic Banking

In Muslims countries, Islamic banks are facing side by side with conventional bank. The effect of Islamic bank is Muslim peoples are becoming well educated with the help of Islamic banking. People want jobs and they have to invest some money in Islamic Banking. Islamic banking faced so many difficulties which is related to financial condition, investment, financial support, finance, and they works under the saharia's law. They work under the pressure and the demand of the saharia's law is only Muslims people work in this bank. Islamic banking is increasing rapidly in fast few years (*Jakarta 2009*).

1. **Islamic banking in other countries:** Islamic banking in other words it is responsible for everything and all advancement in banking sector. When the people want to invest in other funds and they have got some profit then they have more and more profit. Then peoples are interested to invest such countries are Dubai, UK, and other countries. There are mostly people who believed in superstitions. When there are some people believe in superstition then it results in their downfall. When some peoples do not believe in superstition and these some people are those who become successful person in life. When people become independent in Islamic countries

then they get more and more successful person. People's works in Islamic banking in whole world, then people develop their own interest and then they have got more and more opportunities in the life (*Peter Vyanos 2008*).

2. **A Growing market in Islamic banking:** As we know that the Future of Islamic banking is very good. People's get more and more opportunities in Islamic world and Islamic countries. The future of Islamic banking is very bright and it very use in our future. The Marketing strategy of Islamic banking is very good. Islamic banking is also comes in share market, and then they got more and more successful for those people are who works in Islamic banking. Marketing strategy of Islamic banking is very good and finance is also good for those peoples whose works in Islamic banking. Islamic banking is very helpful and it has a bright future (*Peter Vyanos 2008*).

Impact of banking in UK

The purpose of this research is examining the opportunities for development and growth. The main challenges for Islamic banking in UK are very few but they are understood by the Saharia's complaint. It gives the importance to Islamic financial sector due to its fast growing Muslim population. Islamic banking is mostly facing some more challenges in UK because the financial system is more constructive to conventional banking (*ALM Abdul Gafoor 1995*.) The research finding shows that there are great opportunity in the UK for development and growth for Islamic financial system because Muslim community information system and the increase opportunities related to the products and use for market development. Islamic banking is great opportunity in the UK for development and growth of Islamic financial system because Muslim community is eager to take financial products. They just need to educate the Muslim community in the direction of Islamic financial products (*Vasim Ahmad 2008*).

Globalization of Islamic banking in UK

There has been a great level of development, advancement and expansion seen in the Islamic banking in past few years. The main reason for this has been discussed before which is the growing population of Muslims in various countries and the country of our focus here which is United Kingdom. The population of Muslims contributes nearly 24 percent of the total world's population (*M Ishaq Bhatti and m Mansoor Khan 2008*). These methodologies regarding the rules and regulations of Islamic banking were adopted in order to facilitate that growing percentage of its population according to their followings. There are various factors which contributes towards the globalization of Islamic banking which include a rapid and drastic boom in the economic conditions in these countries, advancement and improvement in the technology in eastern countries, strengthening prices of oil there etc. (*M Ishaq Bhatti and M Mansoor Khan 2008*).

Methodology

Investigation method is named as the mechanism, procedure and method. Before starting of investigation process research method should be preplanned as well as decided. To collect and conclude the data with defining philosophy the process

must be explained step by step (Mahoney, 2006). So we can say that methodology is basically depending on behavior and kind of investigation field which need to concern and investigation objective.

Research method

Qualitative research method is more adoptable and popular method because it is one of the methods which emphasize on customer nature and sensational characteristics. Here various mechanism and methods are used like focus groups, chronicle methods, In-depth interviews, and direct observation.

Causes to choose In-depth Interviews

In qualitative research, In-depth interview technique is much better because of its remarkable characteristics over other techniques like as questionnaires and focus group. For individual it is easier for expressing any specific topic on the other hand achieving this task is too difficult in focus group interviews. This is also advantageous due to the saving of time and cut down the argument for taking time to meet an interviewer. In phenomenological research Interview can be taken of leaders of few communities which show net Islamic population. This concept is more advantageous as compare to questionnaires method that in this method investigator gather the information and there is none inconsistency for getting and examining the data for getting result. In questionnaires main problem arises the possibility of client is not able to reply on time and also difficulty to understand the theme of questionnaires. The main big demerits in questionnaires is the problem of not responding to the post or late response or some time no response by the participants (Collis and Hussey, 2003)^[1].

Qualitative tools to analyze data

According to some researcher we need some qualitative tools for analyzing the data and present the findings. (Latour 1993) Here we will discuss some methods of analysis which are as follows:-

- **Coding:** - In this methodology appropriate name is given which must be shorter and concise or we can say that a code is given to specific term, is known as coding method.
- **Extraction:** - In this method for getting shortest conclusion full case studies are précised and then re-précised to obtain shortest conclusion.
- **Data Mining:** -Basic principle of this mechanism, firstly it examines whole case study and then it take out only desired or useful information. It is used mostly in software's.

Data sources

Primary or Direct resources

The investigation is focused on the research of the United Kingdom reason is that in the economy of UK important role is played by the growing population of Muslim Community. Here it is also analyzed about the problems, challenges and opportunities in the United Kingdom for Islamic banking. Qualitative research will be executed with the help of unstructured or semi-structured interviews pattern (Collis and J. Hussey, 2003)^[1]. The reason behind of using this pattern in which researcher will set up some questions that are semi

structured and facilitative for collecting maximum data from interviewees and also helpful to save time and hassle because in closed questions there may be possibility that we might miss many useful and important information.

Secondary or Indirect resources

For abstractive study it is useful to use existing literature from all assets like newspapers, educational and scholarly tabloid in the field of Islamic banking. Through this research the interviewer will try to find out the changes in previous research in the field of Islamic financial sector in the UK with regard to challenges, growth in Malaysia and Australia because this sector contain lots of work.

Data Findings

Result and discussions

The main aim of this investigation is that for getting opportunity to develop and growth and various challenges to Islamic banking in the United Kingdom. According to plan of research in this process nine participants participated that belongs to different communities such as three of them are customers using Islamic banking another three of them from banking authority and the remain three of them are not the account holders of this banking. Primary data collected through in-depth is to match having the several opinions of the member of this communal in terms of the future and scope of Muslim banking sector in the United Kingdom. The data collected in this study through primary sources is matched as well compared with the data which belong to secondary resources collected through different various websites, magazines and earlier studies. The main purpose of this study is expressing accurate situation of Muslim banking system challenges, weakness, and present stage of Muslim banking.

Basic consideration of Islamic banking

It is very essential to get to know the basic consideration and understanding of Muslim banking sector included in the community of Muslim and the institution which are involved in business of this banking sector.

Islamic banking concept

The main aim of the principle of Muslim banking is the banks or Islamic communal have clear ideas as well good understanding about the basic principles and rules of this banking sector. For obtaining the desired outcomes and to study the understanding level of participants I put up several question about the knowledge of Muslim banking sector such as Halal banking, interest free banking etc. Various points related to this result are as follows:-

“Muslim banking is a financial structure that is interest free and based on sha’riah compliant” (HSBC, Bank officer).

“Muslim banking is such a banking system which is interest free because Riba is completely banned according to Islam”. (Lloyd TSB)

“Islamic banking is a concept of clean and pure interest free investment because in Islam receiving and paying interest is totally banned” (Islamic bank of Britain, Bank officer).

Here very important question arises that why interest is totally banned in Islam and necessary to know what will be the effect of it on human being and society.

“The customers are not given any interest from the funds deposit by them”. (Lloyd TSB, Bank officer)

“Because interest leaves bad impact on human being as well as society like as earning’s capacity and undue expenditure of people and their purchasing power”. (Amana Customer)

“It is easy the loan availability because of interest so, people do not consider their earnings and fully enjoying with their spending. It becomes difficult to repay the loan for them at the ending of the day. The credit crunch is the one of the best example which leaves adverse effect of the interest based economy”. (Customer)

“Sha’riah central committee has purely recommended halal and approved Islamic banking”. (HSBC, Bank officer)

It is shown above that all are eyes to eyes with on one point that is the Islamic Sha’riah committee halal and recommended Islamic banking.

“Islamic banking is based on religion as well has more moral and ethical values”. (HSBC, Bank officer)

“The aim of introducing Islamic banking is to satisfy all the needs and necessities of Islamic communal as well as Islamic banking have more good rights, proper principle and ethical values in comparison to conventional banking.” (Bank officer)

It has been mentioned above that all of 3 members of customer group also eyes to eyes with this that this banking is based on religion, moral and ethics in comparison to traditional banking system. This banking appreciates and encourage about that wealth must be equally distributed between the people and society. For the progression of Muslim banking sector it will be very helpful because in starting I was pondering that Islamic bank is only based on religion but by and by after studying it has proofed that it fulfill all the phases of life. This banking system develop friendly atmosphere with all the communities and promotes the halal investment in the society.

Islamic banking Vs conventional banking

The main purpose behind this study is to know about the awareness of Muslim population in regarding with the difference between Islamic and traditional banking sector. For the development as well growth of Muslim banking system it is very essential that Muslim communal which are service provider should have knowledge and aware about the both conventional and Muslim banking. It has become so hard for the society to go ahead towards Muslim banking sector because of lack knowledge and awareness of this difference between both banking systems. In this study it has been asked about the similarities and differences to all participants.

“The Islamic banking system provides loss and profit sharing scheme that should be differ between two parties according to agreement but the conventional banking is totally based on interest”. (Lloyd, TSB)

“Both banking system whether Muslim or conventional are analogous with each other but there is only one main difference of Riba that is interest is not received nor paid by Islamic banking in any condition”. (HSBC, Bank officer)

It is shown in these statements that in Islamic banking as well in conventional banking system the only difference is that there is no Riba concept in this bank it is based on pure investment that makes the society flourish but on the other side conventional banking is totally based on interest.

“It has been prohibited in Islam lending money without transferring the risk and return. Before starting business there is everything is settled as well conventional banking economy is totally based on interest”. (Lloyd TSB, Customer)

“The traditional banking completely stood on interest while Muslim banking has the concept of sharing risk and return where banking areas don’t seem for taking the liability of the losses”.

“Conventional and Muslim banking sector is parallel and related to each other. Here is only one thing that makes them differs is to practice of risk and return”.

On the basis of these statements has proved that in Islamic banking system and conventional banking system there is difference of only two things, these are profit and loss and interest. It is stated that the consumer finances and savings in conventional banking are treated in different way in comparison to Islamic banking. The reason behind this that the customers saving in Islamic banking are empowered in business of halal and the gain which is earned by the bank is handed out between parties according to the agreement of the contract. The bank plays a role of mediator in consumer finance; bank busy asset handed over to customer from halal community market, the consumers invest only the labour on this asset after that the loss as well profit would handed over between two parties according to the situation, terms and stipulation.

This has been cleared that Muslim banking sector is much better in all aspect as compared to conventional banking because this bank has the facility of strong balance and check in the investment whether banks make it or customers. Because of this, Muslim banking is very helping in the process of expanding its growth and sustained economic development.

Sha’riah compliance or Sha’riah law

The main purpose behind this study is get to know that Islamic banking is according to Sha’riah law and to know the rule of Islamic scholars for its development and growth. The main purpose behind this research is get to know that the Islamic banking in present position is based on Islamic Sha’riah law and has the ability to find out the solution of religious and moral requirement of community. In this study some queries have been asked to research clients about this issue:

“Islamic scholar committee governs it which is well qualified”. (Lloyd TSB, Bank officer)

Islamic scholars have sufficient knowledge of Islamic financial system and Sha’riah law. If they do their work sincerely and positively and according to the ethics of Islam thus it would flourish the Muslim banking system.

“Yeah, decisions are being taken by them in accordance to the Muslim law”.

“It is in doubt, because it is not possible providing pure, neat and clean service facility through only one bank that does business transaction with conventional and Islamic banking sector at the same time”.

It has been declared given above statement that almost research participants are eyes to eyes with this that decisions are been taken by Islamic scholars according to the Islamic ethics. The reason is that because they have enough knowledge of Islamic rules and ethics. Decisions are being taken accords to Sunnah as well Quran. Most of the customers

having the same views about Muslim banking is completely based on the economical system of Islam but here an individual is not agree about that conventional banking system are not able to provide services related to Shariah laws because there are possibility of misinterpretation in halal and clean interest free investment. However all the clients are fully satisfied with Muslim banking but here is some doubts about the less numbers of scholars to guide and consult. We find many different thinking and faith that enhance the chances of contravention to understand Islamic Shariah and the scholar’s decisions about the suggestion of spending or depositing money in the hope of future return or benefit.

Sustained economic development and Growth

The basic purpose to study this is to know about the opportunities and challenges for growth as well development in UK. United Kingdom is counted as a hub of Islamic banking and a big financial market. In UK Muslim population is continuously increasing. Due to high rate of the birth in Muslims as well immigration of people from Southern Asia region such as India, Bangladesh and Pak, the increase in the population is of about 400,000 Muslim within the seven years.

Development of the Products

This study has only one purpose that is to search potential of products for the development of the Islamic banking and the customer’s product satisfaction level with its products as well as tools. Idea behind this search is only to justify that is Islamic banking capable to fulfill the requirement of its customers financially as the reason is that when we talk about the conventional banking, they play a vital role in the fast growing market and a huge experience in this sector and indulges in production of new products form a long period. Questions regarding growth of the products in Islamic banking:

“Presently various types of products are being provided by us like Investment, finance, Current account, Vehicle finance and account for corporate. We are the first who are offering Takaful and Home finance. For our customers it is very beneficial because finance for homes and mortgages is very important for the Muslims in united”. (HSBC)

“At present time Lloyd TSB now providing various varieties in accounts considering the demands and need required by the customer like Islamic graduate, Islamic current, Islamic accounts, home finance, baby account, corporate bank account, Business account”. (Lloyd TSB)

“Here we have personal finance, saving account, purchase plan for homes, saving and current account, Commercial property finance and business finance option”. (IBB, Bank officer)

In 2003 Islamic banking started its practice in UK. In the five years the banking for Islamic covers up adequate goods in financial market of US they are Takaful and Home Finance. At present the Islamic mortgage is pricey in comparison to conservative banking as their manner is limited for getting the finance however continuously will help to recover and enhance the status of banking system for Islamic.

“Islamic banking seems to be satisfying my entire needs and supplies”. (Customer)

I am happy and enjoying simple and easy Islamic mortgages

and have home finance plan with Britain's Islamic bank. (Islamic bank of Britain, Customer)

Islamic banking states that the people who are not interested in using Islamic banking, if offers similar services as conventional banking will be successful because the reason is that in expensive countries such as UK you cannot survive if you do not take financial facilities from banking services. Within five years' time Islamic banking has come up with the several varieties of products in all financial areas. At present, there are 18 different products are available in three top banks. Thus we can say that Islamic banking has caliber for growing and developing latest goods within UK, as citizens are appreciating products of the Islamic economic. however Islamic banking have not initiated any creation in some areas such as overdraft facilities, credit cards and simple funding as a huge number of Muslims were indulge in these facilities and are expecting alike from Islamic banking.

Development of Market and Institutions

The principle of this study is to know the potential of Islamic banking to execute dynamic position in the financial market of UK. It is extremely essential to consider strength of the market and development of itself in the industries. Although the development of the product has been satisfied by the Islamic but to observe the development of this bank it is necessary to concentrate on the development of its market in UK as compared to further countries of Europe for example: France, Germany.

For this objective I put up some questions related to growth rate and development in UK.

"Only within 5 years the banking products are being introduced by us in every part of the financial services as well as for the branches of banks London occupied to fulfill the needs and constraint of customers of Islamic banks" (HSBC, 2003).

In 2003, Islamic banking was started by UK high street bank. Prior to starting this banking there wasn't any kind of satisfactory facilities in financial sector, but at present number of branches of Lloyd TSB and HSBC have the window for the Islamic banking moreover Bank of Britain is entirely indulged in services of Islamic finance. This banking has come up with its flying colors and created its prominent position in no time in financial market of UK.

"There is no doubt, that Islamic banking has got remarkable fame, popularity as well recommendation from Muslim population during the last decade. At present Islamic banking has an outstanding position in the financial sector in the UK". (HSBC, Bank officer)

"There are number of institutions which are providing Islamic banking facilities at present, while in 2000 there was none product and facilities of Islamic banking in market". (Lloyd TSB, Bank officer)

There were not sufficient Islamic services in UK before five years ago but at present time most famous conventional banks have Islamic banking window. The reason of it fast growth is increasing Muslim community in UK. There is a favorable environment in UK to develop the Islamic financial services in comparison to other European countries. It is stated that there are number of Muslim community in France and Germany. There is no doubt in saying that France is one of the biggest

Muslim populated countries in the West. But when these countries are compared in term of services and facilities Germany and France lagged behind to UK. Here we talk about the institution they are almost eight involved in Islamic financial services in UK but Germany and France have only one and two institution having Islamic financial services.

Role of FSA and UK Government Regularity Authorities

The main purpose of this study is to know the growth and development of Islamic banking which is totally depend on the financial service authority and UK environment such as social, political and geographical. Thus environment plays important role in the development and growth of any country. Islamic banking can have favorable position only if FSA and UK Government create positive environment to Islamic banking. Here some questions have been asked about the role of these institutions to clients:

"FSA approved all the products of Islamic finance without any restrictions or limitations on Islamic banking system, if work is done by them according to the Government law". (HSBC, Bank officer)

"Britain's Islamic bank has been authorized in 2004 by the FSA with having any restriction on the Islamic banking business if it doesn't oppose the UK law". (IBB, Bank officer) These statements clear that the financial service authority UK approve and recommend Islamic banking services. In UK for both conventional and Islamic banking there are similar treatment because both banking offer financial services and as well banking with differing operational activities. Islamic banking does not have any restrictions and boundaries if it offers services according to the law of UK and regulation of FSA.

"UK government is very helpful to enhance awareness in general public as well playing critical role for Islamic banking for offering the permission of Islamic financial services". (HSBC, Bank officer)

"The UK government is very helpful to increase awareness in public about Islamic banking as well playing doing their work very positively because they know very well that it is not only good for population but also for UK economy." (IBB, Bank officer)

The UK Government is doing their work positively and playing essential role in UK for development and growth for Islamic banking services. It is cleared that about 2 million Muslim are living in UK and UK economy is flourishing day by day because of them. The UK government understands this fact that Muslim communities follow its religion and want to invest according to their ethics and religion. The government of UK is promoting and creating awareness about Islamic banking to increase the investment of Muslim community.

Challenges of Islamic banking in UK

Here we focus the challenges and issues which were faced by Islamic banking in UK. UK is a country having non-Muslim community in which all financial and banking rules are set up in favors of conventional banking, due to this in UK Islamic banking has to face lot of problem. Islamic banking is as young as compare to conventional banking in almost all area these are investment policies, products development, market development, fund management and in information system.

The major challenges I focused which are presently faced by this banking such as supervisory framework, awareness, competition and Globalization, legal and Institutional framework etc.

The legal and Institutional Framework

The main purpose of this research is to know the proper regulatory and well-defined legal institutional set up or framework of Islamic banking in UK. Any organization's success is totally depending on its framework. Islamic banking is a tiny financial institution in big market. Development of Islamic banking depends upon the work hard of all related groups for making its strong foundation. Here I put up some question about present position of this banking which is related to UK to banking authorities:

"Islamic banking does not have a strong legal and Institutional framework as conventional banking has it. They follow the system of conventional banking with amendments which are necessary. It is a need of Islamic banking to develop their policies and accounting standards". (HSBC, Bank officer)

"Islamic banking has to face lots of difficulties related to legal and institutional framework, at the time of serving in Non-Muslim countries. Because the legal framework in these countries much more harmonious to conventional banking". (Lloyd TSB, Bank officer)

"Hardly, Any Islamic banking has big problem of legal requirements particularly in the Western countries; the reason is that Islamic banking is related to Islamic law". (IBB, Bank officer)

It is cleared from the above statements an even single research participant does not eyes to eyes with this that Islamic banking has well defined strong institutional and legal set up. Although Lloyd TSB and especially HSBC is the World local bank with strong network in UK but HSBC was interviewed by me she cleared that there are some difficulties which Islamic banking is facing these are related to contravention policies and accounting standard in financial market etc. The conventional banking system has similar accounting standards which are very helpful to form new policies which are attractive for development of banking sector. This is the reason conventional banking as fully enjoying the huge investment opportunities because it is easier to investors to examine the financial data between the industry and banks. There is no doubt that Islamic banking does not have regulatory framework and well structured institutional, even after they follow the system of conventional banking because UK is non Muslim country as well it has the system which is favourable to conventional banking system. It is the Islamic bank of Britain that just dealing with only Shariah complaints but in terms of strong institutional framework it does not have well trained staff in the field.

"It is essential for strong Institutional framework that staff must be given proper training and main focus on research and development". (HSBC, Bank officer)

This statement clears this thing that it is a need of Islamic banking to more attention on coaching and training the staff the reason is that this banking is completely based on ethics and religion. As new customers are enthusiastic about the practice of this banking these are profit sharing ratio, home finance working and investment policies. So all the staff

members must know all the fundamentals of Islamic banking.

Competition and Globalization

This objective emphasizes on that in the age of competition and globalization Islamic banking UK is able to survive and develop. At present world market is growing very fast and able to understand the demands of customer and accept the changes quickly. Globalization is responsible for spreading the business in all over the world. This banking has major challenges of external and internal competition as well as financial specialist and scholars of Islamic banking must pay attention to work hard to face the challenge of globalization. Some question put up to participants to study the effect of globalization:

The factor which are responsible and playing an important role for the development of Islamic banking are Globalization and internationalization because in all over the world the Muslim community can easily take part in investment and financing in global business. (HSBC)

In the era of globalization the financial capital market is connected with the whole world. For Islamic banking it is challenge to promote the Islamic financial system on competitive basis as well it plays an essential role for the development and growth because Muslim community playing a positive role in the international financial market.

Globalization has become a great challenge for Islamic challenge because financial set up and current economy is growing very fast. Islamic banking needs to work on competitive basis for surviving in the age of internationalization and globalization. (Bank officer)

It has been cleared from the above statement that today's world economy is facing some challenges and crisis such as credit crunch. Globalization can play an important role to make the financial market up to date and strong. On the other hand huge amount and investment make the system flexible, smooth and prolonged.

"Globalization makes the development of Islamic banking system easy in western countries. The immigration of funds from Muslim countries to western countries will helpful for the growth and development of Islamic banking". (Bank officer)

Thus, this statement has cleared that it is easy to transfer funds from one country to another countries due to globalization. It is very easy and helpful for developing this banking system in the western countries especially in UK. All the statement given above has cleared that globalization has become positive factor for development of this banking in UK but this banking is suffering and facing danger of huge competition especially in UK, Germany and France because the financial market in these countries is in strong position and the system has favourable condition to conventional banking because of their full involvement and experience in financial and capital market. In UK market the Islamic banking is facing great challenge that is competition because Islamic banking is still in infant stage which is facing lots of problem such as shortage of funds and skilled and trained staff as well.

Awareness of Islamic banking system

The main purpose behind of this research is that this banking system in UK is fully informatory as well as facing lots of

difficulties in the marketing sector. Awareness is one of the greatest factor or challenge in the market development as well development of Islamic banking products. The system of conventional banking is much more informatory rather than Islamic banking. Conventional banking is also free from the problem of funding to information system and proper marketing of innovative and newly launched products. Here some questions put up related to the awareness to the participants:

“No, there is very less people in Muslim community who has proper and complete information about the Islamic banking system. Imam of Mosque and Islamic committee are required to spread awareness and play important role in this respect”. (Lloyd TSB)

“In my opinion it is essential to educate the community about the product of Islamic banking and its practices”. (HSBC)

“I think Muslim community is not aware about Islamic banking products and Islamic finance”. (IBB)

All these statements mentioned above have been said by bank officers. In their opinion Islamic banking is capable to growth and development but the main thing they need is to educate the people about products and function of Islamic banking. All the interviews have one common thing that Muslim community does not have much information about this system. They think that on Islamic banking accounts that there is no benefit to receive but actually it is a clean and pure way of investment.

“Islamic banking has to face challenges of well organized and appropriate marketing and fund management”. (Lloyd TSB, Bank officer)

The customer want Islamic banking to improve information system such as substitutive marketing techniques to the community which having different level because all people does not have similar understanding of Islamic banking.

“There is only one reason about Islamic banking product is lack of information. Islamic banking cannot be evaluated like conventional banking because bank of Britain does not have many branches and conventional banks are not providing services in all branches with Islamic banking”.

Currently there are 2 million Muslim living in UK and fifty percent out of them are living in London. UK is the fast growing Muslim community country in the world. There are only 4 branches in of Islamic bank of Britain in London area for one million people. It is not easy to manage to these people through this network. At the last it is cleared that Islamic banking is facing lots of difficulties regarding funds management that affect both marketing sector and as well the information system of Islamic bank.

Conclusion

There are three factors founded in this research study such as basic fundamental of Islamic finance in banks, its development and growth and challenges in UK. This study is totally related with the Islamic financial system include the concept of halal business opportunities and utilize the fund on the basis of profit and loss is equally shared. It is careful investment policy and prudent management by Islamic financial institution in United Kingdom. Here from researches it is investigated that in Islamic economical frame work all the users aware about Shariah law and Islamic economical

framework. They also know the fact that Islamic banking is an interest free banking system in all sort of business transaction. In Islam receiving and paying interest is totally banned because interest charges is always lead to credit crises and most of the countries facing same problem due to taking interest. I conclude that implementation of Islamic financial system is an alternative methodology and paradigm for all who are believer and non-believer because it is very essential for the growth, development and happiness.

It is also founded in the research Islamic scholar plays outstanding role in the development of Islamic banking. Any kind of decision and action are depend on Islamic Shariah law but due to the problem of lacking of qualified scholars it become too hard for updating this system correspond to present need and requirement of the customers. So these scholars are very needy in the development of Islamic banking because they have the capability to eradicate all financial based problems such as credit crisis.

We found in the next section of research study that Islamic banking established its business in 2003 in UK and it got tremendous popularity and success in United Kingdom. There are 8 branches of Islamic bank and each bank has its own rules and regulations. There are some other international banks like as HSBC and Lloyd TSB which offering best services in regarding with products and services in their entire branch. There are lots of inhabitants who are belongs from southern Asiatic countries like as Bangladesh and India are living in United Kingdom as well having strong financial background and they contribute as an active member for whole economical condition of United Kingdom since last several year. Muslim community easily invests their money among trade risks where Shariah law included and they feel about this banking system would at the top position due to Shariah law and big opportunities and challenges in United Kingdom. Thus it can be conclude that economic position can be increased and improved through greater investment opportunities.

FSA and the government of United Kingdom are very helpful such this banking system which is very new and provide good economical condition to upgrade their trade according to modern system. Presently in United Kingdom this system has several merits of consent, authorization or sanction, popularity etc. The biggest problem with Islamic banking is facing lots of difficulties like as unavailability of service network because in UK Islamic population is in second position when we talk about of its population and there are banks which are in lesser extent and Islamic institution which is not able to provide complete customer satisfaction regarding with their needs such as services related with economy, credit cards loan, various policies etc. must be included in United Kingdom for the development and succession of economical condition. In present era, this banking sector has lack of well skilled and qualified staff workers for the field of sales, trading and economy. Thus we can conclude, this banking has lots of issues and challenges in western countries but we overcome with proper cooperation of Muslim community, with increasing experience, and proper guidance etc. who can modify these challenges into key success factors for growing up of this banking system

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