**CHALLENGES FACING ISLAMIC BANKS**

**Introduction**

The Islamic banking growth story continues to be positive, growing 50% faster than the overall banking. Malaysia, Iraq and Saudi Arabia are the countries where Islamic banking is dominant in banking sector and their economy is progressing. But Islamic banking is still behind the conventional banking system in term of market share and number of clients so it has to do more for becoming market leader. There are number of people who are not familiar with Islamic banking and its prospects. Apart from its popularity in the world, issues and challenges faced by Islamic Banking Industry must be clearly pointed out so that policymakers are able handle the same effectively. Few Major challenges are discussed below that need the utmost attention of management of Islamic Banks for their prosperity:

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| |  |  | | --- | --- | | **A.** | One of the many challenges for them is to introduce their products to the laymen as wel as other scholars of theworld and convince them over the utility of the products. | |  | | | **B.** | Islamic banking needs to eliminate the misconception of the general public that Islamic banks are performing the same services like the traditional banks. There is a great challenge involved in implementation of interest free banking and many Islamic banks adopt the activities that result in the fix return making people think that Islamic banks are just changing the name of “RIBA” with “PROFIT”, therefore continuing with what the conventional banks do. | |  | | | **C.** | Islamic Banking needs to improve their functioning by adjusting the traditional concepts and features into Islamic context. | |  | | | **D.** | The conflicts between the Islamic bank or Islamic financial experts and Mashaikh or traditional Islamic scholars should resolved sooner rather than later. | |  | | | **E.** | Another major problem is that in many countries Islamic banking is lacking support of their legal systems, laws and governments. Except Iran, UAE, Malaysia, Pakistan and some other Islamic countries, governments of many countries are not supporting Islamic banking legally. In case of Pakistan, numerous judgments of the courts and Islamic Ideology Council can be cited wherein Riba has been declared illegal and un-Islamic (Irshad Khan Vs. Parveen Ajaz, P.L.D. 1987; collection of Riba is un-Islamic (Habib Bank Vs. Muhammad Hussain, P.L.D. 1987); Riba is not in public interest (Shahbazad Chaudhry Vs. Services I.T. Ltd, P.L.D. 1988).  But for the time being in a country like Tanzania is almost next to impossible to declare that riba is illegal on national level but is possible to raise the awareness the disadvantages of Riba and advantages of profit, | |  | | | **F.** | Islamic financial institutions face problems in working in non-Islamic countries due to the absence of the regulatory body that works in accordance with Islamic principles. | |  | | | **G.** | Islamic banking is also facing the shortage of experts, scholars, experienced bankers, employees who are trained in Sharia to manage the Islamic banking projects. Moreover the growing Islamic financial industry faces the problem of lack of Sharia Jurists. Only limited scholars have the knowledge of Islamic jurisprudences. So the current need of Islamic banks is the availability of Muslim scholars so that they can enable Islamic Banks to reconcile their operations with true Islamic standards and also help improve public’s understanding of the same. Similarly, campaigns for spreading the knowledge of Sharia among the non-Muslims are required. Moreover countries should seriously work to establish a national committee like Pakistan’s Council of Islamic Ideology where Muslim jurists and economists jointly formulate policies for a financial system based on Islamic Shariah Principles. | |  | | | **H.** | Islamic banks are not successful in advertising interest free banking & their products. | |  | | | **I.** | Another challenge is lack of uniformity in standards of analysis of credit. Islamic banks face the problem of absence of suitable standards for their credit analysis. So, higher attention is required in this context. | |  | | | **J.** | Similarly microfinance system of Islamic banking should be promoted among lower middle and middle class of people through trained professionals and low cost products. | |  | | | **K.** | Another challenge faced by Islamic banking is that it is based on assets base financing i.e. it invests in assets to earn profit. Islamic banks do not follow the principle of Anticipated Income Theory, mainly being followed by conventional banks. Islamic banks invest in working capital, real estate, shares & other assets so their liquidity is highly dependent on the liquidity of all companies in which they are investing. | |  | | | **L.** | There is a need of proper standardized regulatory body to control the functioning of Islamic banking system in all over the world. | |
| **Conclusion** |

In nutshell, it can be concluded that Islamic Banks need to overcome the challenges discussed above through proper strategic moves if they want to expand their functioning to every single person in the world. Although Islamic Banking is behind the conventional banking system but the current rapid growth of Islamic Banking system is an indication that it wouldn’t take them long to successfully compete with the conventional system. By addressing these challenges both governments as well as management of Islamic Banks can not only improve existing system but also further broaden the scope of the same.

Ahmed Haydar Jabir

Businessman and lecturer of Islamic Bank and Finance Zanzibar University