

Participation Banking in European Context

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ABSTRACT

The purpose of this study is to find a common ground for participation banking in Europe, by explaining a new way of banking practice which has its roots in the European business tradition of partnership, investment, trading and providing services, as well as the status of usury in Christian, Jewish and other traditions. It deals with questions related to the openness of European societies to this invention of Islamic culture, the main characteristics of participation banking, its benefits, the chances for building better relations with the Muslim world, and the possibilities of participation banking in non-Muslim environments. It is concluded that participation banking is an opportunity for rather than a threat to, Europe which will open new dimensions for the banking industry, diverse responsibility, bring people together, increase competition and bring better services with more competitive prices and, what is quite important is that it might activate the savings of European Muslims that are currently out of the banking system.

KEYWORDS

Participation banking, Usury, Sharia, Murabaha, Musharaka, Mudaraba, Salam, Istisna, Ijara

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Introduction

The biggest success of European society is reflected in the fact that it has largely managed to build a pluralistic society that accepts and respects differences among people. This achievement has opened the road to new success in the political and economic fields, so that today we have the European Union in front of which are great opportunities if it succeeds to maintain the direction towards pluralism and respect for diversity among its citizens. The principle of pluralism is consistent with the natural law of Allah Almighty because He has created people different and prescribed to them to meet and know each other: "O mankind! We have created you from a male and a female, and made you into nations and tribes, that you may know one another" (Qur'an, Al-Hujurat 13). Whatever is natural, whatever is consistent with the natural law of God, has a chance of success, because it brings to human beings what is in harmony with their nature, what is good and useful for them.

Although, as noted, European society is pluralistic, although it respects pluralism, some people within society, sometimes, reluctantly accept when something comes from the Islamic culture. There is prejudice, and even open opposition, at the first glance, just because it comes from Islamic culture. Given the objectives that European society proclaims, it would be fair to give participation banking fair treatment and a chance to participate and compete in the European market. Thus, the revival of the following universal values and principles on which European society is built is necessary:

1. A universal attitude toward human beings: that all human beings are blood-brothers and sisters with the same rights and obligations.¹ People should be valued according to their actions-how beneficial or harmful their deeds and actions are to themselves, to other people and to the environment, but not based on their ethnic origin or religion.
2. The freedom of expression of ideas should be fully implemented. Restriction should only be on the usage of insulting words and expressions. It will enable people to present their products and ideas freely.²
3. Equal rights and obligations in society and equal rights in front of the law: This principal requires European secular states to revive the original idea of secularism, according to which all citizens are equal in their rights and obligations and equal in front of the law.³
4. Equal opportunity for all human achievements: It can be achieved if the cultural and other achievements of all Europeans are equally treated and given equal opportunity to compete in the field of ideas and products.⁴

Rational Behind Prohibition of Interest

The Qur'an and the Sunnah do not provide any detailed rationale for the prohibition of interest (*riba*). However, the implicit meaning of Qur'anic verses and sayings of the Prophet, p.b.u.h., about interest may suggest that the charging of interest is an act of injustice. This is why Muslim scholars, when speaking about reasons why Islam has prohibited interest, say that the main reason behind the prohibition of interest is the prevention of injustice. The injustice in dealing on the basis of interest can be observed at different levels. For example, the fact is that the lender is guaranteed a positive return while the borrower takes all the risks. Therefore, taking interest represents *akl amwal an-nas bi-l-batil* because the lender and the borrower are in an unequal position. "Such injustice may result based on significant price fluctuations, or any of a number of other considerations. Moreover, there is a very real danger of exploitation of poor debtors by creditors, which Islam strives to eliminate." (Zuhayli, 2001:1/337)

Furthermore, it opens the way for the accumulation of wealth in a few hands. After explaining that as a whole, socio-economic and distributive justice, intergenerational equity, economic instability and ecological destruction are considered the basis of the prohibition of interest, Muhammad Ayub concludes: "Keeping in mind all relevant texts and the principles of Islamic law, the only reason that appears convincing is that of distributive justice, because the prohibition of Riba is intended to prevent the accumulation of wealth in a few hands; that is, it is not to be allowed to "circulate among the rich" (Holy Qur'an, 59: 7). Therefore, the major purpose of Riba prohibition is to block the means that lead to the accumulation of wealth in the hands of a few, whether they are banks or individuals." (Ayub, 2007:54-55).

The way to go out, without stopping economic activities, is partnership financing through products of participation banking.

Main Characteristics of Participation Banking

The main characteristic of participation banking and finance are:

1. **Dealing on non-interest basis.** The Qur'an says: "...whereas Allah has permitted trading and forbidden usury" (Qur'an, *Al-Baqara*: 275). Due to this revelation

and some other verses and sayings of the Prophet Muhammad, p.b.u.h., Muslim scholars are unanimous that usury is forbidden in Islam. Zuhayli says: “The Islamic nation is in consensus over the prohibition of *riba*. In this regard, Al-Mawardi said: “To the point that no legal system (*sharia*) has ever permitted it”, as evidenced by the verse “That they took *riba*, thou they ere forbidden to do so” (4:161), meaning in the previous revelations (Zuhayli, 2001:1/311). It is considered to be a way of unjustified taking possessions of others (*akl amwal al-nas bi al-baṭil*) by receiving monetary advantage in a business transaction without giving a just counter value. “The principal reason why the Qur’an has delivered such a harsh verdict against interest is that Islam wishes to establish an economic system where all forms of exploitation are eliminated, and particularly, the injustice perpetuated in the form of the financier being assured of a positive return without doing any work or sharing in the risk, while the entrepreneur, in spite of his management and hard work, is not assured of such a positive return. Islam wishes to establish justice between the financier and the entrepreneur (Chapra, 1995).

2. **Partnership.** The Prophet Muhammad, peace be upon him, said that Allah Almighty promised His support to humans who work together in partnership till one of them starts to cheat the other (Abu Dawud, 2000). This is why business in Islam is partnership oriented. Because of the same reason participation banking is partnership oriented on the basis of profit and loss sharing. The main products *musharaka* and *mudaraba* are pure partnerships, while all other products like *salam*, *istisna*, *ijara* and, even, *murabaha* have some elements of partnership.
3. **Asset backed financing.** Islam does not recognize money and monetary paper as a subject-matter for trade except in the trading of different currencies. “Profit is generated when something having intrinsic utility is sold for money or when different currencies are exchanged one for another. The profit earned through dealing in money (of the same currency) or the papers representing them is interest, hence prohibited. Therefore, unlike conventional financial institutions, financing in Islam is always in illiquid assets which create real assets and inventories (Usmani, 2002).
4. **Transparency.** There is no hidden costs, no small letters in the contract. Uncertainty (*gharar*), including deception or ignorance is prohibited. One of conditions for the contract to be valid in Islamic law is clearness, transparency, explicitness and non existence of doubtful and uncertain matters that can cause disagreement in the future.

5. **Care for the society.** This care is evident in many aspects. Islam prohibits everything that is harmful to human beings like alcohol, tobacco, gambling, prostitution, etc. Islam has prohibited *maisir* (gains made from speculative activity, or ‘unfairly earned income’) because it harms society. Therefore, participation banks do not finance those products and activities or anything else that is harmful to human beings. Participation banks help poor people through a product called *qard hasan* (benevolent loan). Through special funds they try to find solutions for the micro financing of poor people on terms that are suitable for them. If a partner of a participation bank experiences hardship the bank has the obligation to help because the Qur’an says: “And if the debtor is in hard time, then grant him time till it is easy for him to repay, but if you remit it by a way of charity, that is better for you if you did but know (Qur’an, *Al-Baqara*: 280). In all cases participation banking is keen for the successes of its clients, because it is the only way that the bank can be successful.

6. **Real economic activities.** Participation banking is not the mere lending of money, but rather a very large spectrum of economic activities that represents an alternative method to profit making in trade, partnership in project financing and providing all banking services that modern customers require. It is widening the ways of financing and opening new opportunities. These are the main characteristics of participation banking. All of them should be evident in practice if participation banking is implemented according to the teachings of Islam.

Expected Standing of Europeans about Participation Banking In Europe

Participation banking has a religious dimension for Muslims⁵, but for non-Muslims it would be, at least, a human product, like other human products. Most Europeans certainly have a positive attitude toward the previously mentioned values and principles and as a result of that they should accept participation banking as a human product and achievement.

Sharia is the religious law for Muslims that regulates their daily activities, and for those who don’t believe in Islam as sense of divine source, it should be a cultural achievement of their fellow human beings. That cultural achievement has the right to be treated equally alongside the cultural achievements of others. Therefore, Muslims

in Europe and elsewhere are expecting that kind of treatment towards their cultural achievements. Any treatment by which Muslim culture is placed in a second-rate position may be a sign of intolerance, prejudice, or lack of knowledge.

All products of human beings have to be judged according to their usefulness or harm to society, not on the cultural background of a certain product. Therefore, when discussing participation banking in Europe what should be discussed is whether it would work properly in a certain European environment, how it can be incorporated in the European legal system, whether it will improve economic activities, bring benefits to the society and so forth.

Is Participation Banking for Muslims only?

Certainly, it is not. These products can be used by all people, Muslims and non-Muslims⁶, by participation and conventional banks. Participation banking does not require the introduction of *Sharia* law on the state level and participation banks can be run by non-Muslims, too.⁷ Even more, conventional banks can, under certain conditions, have windows which operate in accordance with *Sharia* standards⁸.

Therefore, correct and impartial relation to the products of participation banking requires a discussion of it in the light of its benefits to society, possibility of its implementation in different environments, not in the sense of imposing Islam and *Sharia* law on non-Muslims.⁹

Usury in the Past and Contemporary World

The practice of usury - lending money with interest can be traced back 4,000 years¹⁰. This activity has always been condemned, restricted or banned by moral, ethical, legal or religious entities.

In the Hindu Sutra (700-100 BC), as well as in the Buddhist Jatakas (600-400 BC), the payment of interest is mentioned along with expressions of disdain for the practice. Vasishtha, a prominent lawmaker of the era, drafted a law that banned the high caste Brahmins and Kshatriyas from being usurers or money-lenders.

Western philosophers such as Plato, Aristotle, Cato, Cicero, Seneca and Plutarch were critics of usury. Judaism, Christianity and Islam all forbid usury. The Torah discusses the prohibition against taking interest in many places: Exodus 22:24; Leviticus 25:36-37; and Deuteronomy 23:20-21. The verses in Deuteronomy says: “You must not make your brother pay interest, interest on money, interest on food, interest on anything on which one may claim interest. You may make a foreigner pay interest, but your brother you must not make pay interest” (Deuteronomy, 23:19-20)¹¹.

The Qur’an states: “That is because they say: “Trading is like usury,” whereas Allah has permitted trading and forbidden usury” (Qur’an, *Al-Baqara* : 275).

Despite these facts, only Muslims, and some non-Muslim individuals and smaller groups and organizations stand firmly against interest, and try to avoid it in their everyday life. On other side churches like the Catholic, Protestant and Orthodox churches do not object anymore to the interest charged by conventional banks¹². However, after the last prime mortgage crisis in America which affected most countries worldwide it seems that the Catholic Church has started opening its doors to the idea of participation banking. One article in the Brussels Journal on this subject is clear about the changes which can be expected in the future. The Journal states:

In yet another act of conciliation on the part of Western religions towards Islam, the Vatican newspaper *L'Osservatore Romano* has voiced its approval of Islamic finance. The Vatican paper wrote that banks should look at the rules of Islamic finance to restore confidence amongst their clients at a time of global economic crisis. “The ethical principles on which Islamic finance is based may bring banks closer to their clients and to the true spirit which should mark every financial service,” the *L'Osservatore Romano* said. “Western banks could use tools such as Islamic bonds, known as sukuk, as collateral”. Sukuk may be used to fund the “car industry or the next Olympic Games in London,” the article says. The Vatican article is only one of many articles that have recently appeared on the acceptance by Western governments and bankers of an Islamic financing system. More than accepting it, they seem to be welcoming it, though they are certainly being pressured into this by unnamed forces bowing to the dictates of Islam (Tiberge, 2009).

France, which has opposed Participation banking for a long time, has eliminated legal hurdles, particularly levies, for Islamic financial services and products and enabled listing companies on the Paris Stock Exchange. French Finance Minister Christine Lagarde announced in 2009 France’s intention to make Paris “the capital of Islamic finance” and said that several Islamic banks would open branches in the French capital in 2009 (Aki, 2011).

On 17.01.2011, The Bloomberg news has quoted the statement of State Secretary for Foreign Trade Pierre Lellouche that France is going to develop Islamic finance and attract investment from the Gulf to its economy:

“We’ve had some delay, compared to the British particularly,” Lellouche said in an interview in Abu Dhabi today, “The legal mechanisms are getting in place and French banks are very capable and they are at it.”

The Bloomberg reported that the first Islamic bond from France could be sold in early 2011 after the government introduced guidelines for sukuk offerings, Thierry Dissaux, chief executive officer of the French Deposit Guarantee Fund said in an interview Dec.15.

Reuters reported on 27 October 2011 that French lender Credit Agricola (CAGR. PA) is considering either issuing an Islamic bond or creating a wider *sukuk* program that could lead to several issues, as European banks seek to diversify funding, a senior executive said on Thursday. “It’s something that we’re always looking at but it’s probably more on the agenda today than yesterday because banks need to diversify funding,” Simon Eedle, managing director and global head of Islamic banking, told the Reuters Middle East Investment Summit. “I believe it’s something that we will do. It’s only a question of time,” he said. “If Credit Agricole were to issue a *sukuk*, it would be an ijara structure with real Islamic assets to justify to the investors that we are using the financing to divide the liabilities to match the Islamic assets we have,” he said (Pasha& Uppal, 2011).

Despite the fact that the preparation of the legal framework and the introduction of the instruments of Islamic banking seem slow, these developments in Europe are a good sign which Muslims worldwide applaud and encourage.

Participation Banking Products

Participation banking is enjoining permanent development. It comes with new products and improves existing ones. Today, the most popular products of participation banking are the following:

1. *Murabaha*

“*Murabaha* is a particular kind of sale where the seller expressly mentions the cost of the sold commodity he/she has incurred, and sells it to another person by adding some profit thereon” (Usmani, 2002)¹³. The *murabaha* transaction exists between three parties: the financier (the bank), the vendor from whom the bank purchased the goods, and the client of the bank who will buy the goods on deferred payment basis.

More than eighty percent of participation banking financing is done through this product and due to this fact *murabaha* is known as a method of banking operations, while in the essence it is a kind of trade with a disclosed profit margin.

2. *Musharaka*

Musharaka means a joint enterprise formed for conducting some business activities in which all partners share the profit according to a specific ratio, while the loss is shared according to the ratio of the contribution (Usmani, 2002).

This mode is represented in the contribution of partners of equal or unequal ratios of capital to establish a new or to take part in an existing project, whereby each participant owns a share in the capital and deserves his share of the profit. The partnership originally is intended to continue up to the dissolution of the company. It is possible, though, for one of the partners to sell his share in the capital and to withdraw from the project one for reason or another,

The participation banks use this mode in different projects. They finance their customers with part of the capital in exchange for a share of the output that they agree upon. Mostly, they leave the responsibility of management to the customer partner and retain the right of supervision and follow up.

3. *Musharaka Mutanaqisa*

“According to this concept, a financier and his client participate either in the joint ownership of property, or equipment, or in a joint commercial enterprise. The share of the financier is further divided into a number of units. It is understood that the client will purchase the units of the share of the financier one by one periodically.

By doing that, the client is increasing his own share, till all the units of the financier are purchased by him so as to make him the sole owner of the property, or the commercial enterprise, as the case may be” (Usmani, 2002).

Decreasing or diminishing partnership differs from permanent partnership in terms of continuity. In the decreasing partnership the bank intends, from the beginning, to remain associated with the client for a defined period of time, not indefinitely. According to this concept, the bank has all the rights and obligations of the ordinary partner. The client uses the shared property or the equipment and pays rent for the part owned by the bank. The collected rent is what the participation bank earns from this kind of partnership.

4. *Mudaraba*

“This is a kind of partnership where one partner gives money to another one for investing in a commercial enterprise. The investment comes from the first partner who is called *rabb al-mal* while the management and work is an exclusive responsibility of the other, who is called *mudarib* and the profit generated are shared in a predetermined ratio” (Usmani, 2002). Mudaraba in the banking industry is a finance process whereby the participation bank contributes funds and a client contributes expertise and works to execute a potentially successful project. Profits are distributed in a percentage agreed upon beforehand. The bank shall bear any loss if the client is not negligent or in violation of the terms. Mudaraba can cover one deal, several deals, or a specified period of time up to a specified ceiling (Archer & Karim, R: 2002).

5. *Salam*

“In salam, the seller undertakes to supply specific goods to the buyer at a future date in exchange for an advanced price fully paid at spot” (Usmani, 2002). Therefore, salam is a financial transaction in which price is advanced in cash to the seller who abides the delivery of commodity of determined specification on a definite due date and place. The bank can, on parallel salam, sell a commodity of the same kind as it has previously purchased with the first salam, without making one contract depend on the other. The bank also has the option of waiting to receive the commodity and then seling it for cash or deferred payment.¹⁴

6. *Istisna*

It is a contract with a manufacturer who is to make something for the purchaser, for a defined price, which can be paid in advance or later. Therefore, *istisna* is a sale transaction where a commodity is transacted before it comes into existence. In this kind of transaction the price and all necessary specifications of the commodity and other terms must be fixed and fully settled. Participation banks frequently use *istisna* to finance building and constructing projects. The majority of the jurists consider *istisna* to be one of the divisions of *salam*.

7. *Ijara (Operating Lease)*

“In leasing an owner transfers its usufruct to another person for an agreed period, at an agreed consideration (Usmani, 2002). Leased subject must have usufruct, must be identified and quantified. It remains in the ownership of the lesser. According to this mode, the participation bank maintains a number of various assets as its property to respond to the needs of different customers. These assets usually have a high degree of marketability. The bank lends these assets to any party and after the end of the lease period the assets are returned to the bank, which looks for a new lessee. The collected rent is what the participation bank earns from this activity.

8. *Ijara wa iqtina' (Lease purchase)*

Lease purchase, or lease that ends with possession, is a new mode tailored by participation banks. The bank purchases an asset on behalf of a customer who is interested in owning it by means of lease that ends with possession. At the end of the lease period, ownership is transferred to the lessee. Generally, the bank calculates total rentals on the basis of the cost of asset plus the profit. Rentals are paid over a period of time as agreed between the bank and the customer (Usmani, Archer & Kerim, 2002).

9. *Qard hasan (Benevolent loan)*

“*Qard ḥasan* is a loan which is returned at the end of the agreed period without any interest or share in the profit or loss of the business.” (Chapra, 1995:68). Every participation bank has a special account for the *qard hasan* fund. They normally put

some of their annual profit in that fund and channel to that account all income that is forbidden in Sharia, like penalties etc. These funds are limited. Therefore, qard hasan financing is available to a limited extent. It is provided for financing of small businesses or to help those people who face personal hardships and need financial help.

Participation Banking in the European Tradition and Opposition to it

The above mentioned products may be traced and found in the European tradition, as well as in temporary practice¹⁵. Europeans have long traded with known and unknown profit margins; they have been establishing joint ventures, investing in different businesses, leasing properties etc. Europeans had and they still have co-operative, interest-free banks. A well known bank of this type is the JAK bank in Sweden. JAK has been operating an interest-free savings and loan system since 1970. It was licensed in 1997. It has 36,300 members and annual growth of 7 percent¹⁶ (Jak, 2011).

Despite the fact that the products of participation banking are widely practiced in the everyday lives of Europeans, it still faces some opposition, sometimes because of prejudice and mostly due to ignorance regarding the intentions of Shariah which are reflected primarily in the protection of the five core values: protection of life, religion, wealth, honour, and offspring. It can be said that the great majority of Europeans support these values as Muslims which practise Islam do. Therefore, they can, for certain, find common ground when participation banking is in question. The best proof for such a claim are European banks, many of which are trying to benefit from participation banking system by opening windows for participation banking. This trend is supposed to continue more vividly in the future. If it becomes a success story, it will remove some suspicions that still circle in Europe about participation banking.

European Experience in Participation Banking

The UK has the most and the longest experience in participation banking amongst European countries, despite the fact that it does not have the biggest Muslim population. The UK has 1.8 million, while France has 5 million Muslims. Participation banking in the UK started a quarter of a century ago, and France actively started preparations for the introduction of participation banking in 2009.

The UK has become a centre for participation banking because London, as the most influential financial centre in Europe, has become the centre for Islamic finance. The beginning was with Al-Baraka International Bank in 1982, then United Bank of Kuwait, which later became Al-Ahli United Bank. This bank still operates. The first dedicated participation bank in the UK is the Islamic Bank of Britain, which was licensed in 2004. The first participation investment bank, the European Islamic Investment Bank, was opened in UK as well.

Participation banks in the eighties had an excessive liquidity and London took advantage of this to channel money into its market and businesses. The excessive liquidity is obvious nowadays, and, maybe it is the main reason why Gordon Brown, while speaking in the conference on participation banking and finance held in London in 2006, said: “It is the vibrancy and dynamism of Britain’s Muslims, combined with Britain’s openness to the world and our historic ties with Muslim countries, that means the ambition you have set for yourselves - to make Britain the gateway to Islamic finance and trade - is one I believe Britain is well placed to achieve” (Adfero, 2006).

In his speech related to this subject Financial Services Authority (FSA) Chairman Sir Callum McCarthy laid out the UK position, saying, “It is important that we showed we were able to accommodate Islamic banking practices alongside traditional non-Islamic banking, for reasons both of principle and of practical importance” (McCarthy, 2006).

There is a need to emphasize a great potential in liquid money owned by European Muslims, who are out of the banking system due to the fact that they are trying to avoid dealing in interest. If a *halal* system is provided, they will invest, especially if they know that keeping liquid money as *kantz* (unused money) is blame worthy in Islam.

When Turkey becomes a full member of the European Union, the participation banking which is growing rapidly in this Euro-Asian state will gain new dimensions.

The Participation Banking Experience in Bosnia & Herzegovina

Vakufska banka d.d. Sarajevo, founded in 1992, was the first bank in Bosnia & Herzegovina that was established to work according to the participation banking principles. However, it never introduced that practice and their business has included interest from the beginning, due to a lack of skilful professionals in participation banking.

Orient banka d.d. Sarajevo – founded in 1996, was the very first bank that provided loans on a non-interest basis. In January 2000, this bank was forced to merge with the conventional ABS banka d.d. Sarajevo and, accordingly, lost its identity as a participation bank.

In October 2000 Bosna Bank International d.d. Sarajevo was founded. It is the only bank in Bosnia and Herzegovina that operates under the principles of participation banking. The founders of BBI are: the Islamic Development Bank 45,46%, the Dubai Islamic Bank 27,27%, and the Abu Dhabi Islamic Bank 27,27%. BBI provides all banking services, but it faces limitations because of the local legal system, which does not recognize “interest-free” business models. Therefore, the main products of participation banking like *murābaha*, *mushāraka* and *ijāra* cannot be used in their “classical” forms.

There are some other difficulties that the bank is facing, like double taxation due to tax on profit obligations at the end of the business year (participation in sharing of profit represents income for the bank, while interest represents costs charged as expenses). Since 2006, BBI is trying to amend the Law on Banking. The amendment past successfully through the House of Representatives, but it did not go to the House of People because there was not enough support from Croat representatives.

In order to remove some doubts about participation banking, BBI is organizing seminars and promoting the idea of participation banking in different ways. One seminar was organised in 2006 for the Federal Government and the Banking Agency. The speakers were Professor Rodney Wilson from Durham University, UK, Dr. Murad W. Hofmann from Germany and Sheikh Nizam Ya’qubi from Bahrain. Their presentations were well received by the Prime Minister and his cabinet ministers at that time, but the law remains unchanged until now.

The last effort was made on 19.12.2011. The Association of Banks of Bosnia and Herzegovina drafted some amendments to the Draft Law on Amendments to the Banking Act proposed by the Government of the Federation of Bosnia and Herzegovina. One of amendments is: “Banks can in its business use products based on partnership and the sale with profit margin, but only for the purpose of lending-financing banks customers.”

Participation Banking in the Global Finance Industry

Participation banking is relatively small in the global finance industry. Alexander Lis, managing director at Oliver Wyman, the consultancy, calculates that there is

\$300bn of assets managed according to participation principles, and more than 280 institutions providing participation products (Khalaf, & Tett 2007). Other experts estimate these numbers to be much higher.

The Future of Participation Banking in Europe

Participation banking today shares only 1% of the global banking industry. However, keeping in mind the great potential of Muslim countries and the annual growth of the participation banking industry by 15%, there is no doubt that it is going to play a greater role in the future. In last two decades participation banking has developed rapidly. This quick and sudden development is an un-believable phenomenon. One of pioneers in the industry and a renowned expert in participation banking Hussein Hassan from the Dubai Islamic Bank says: “What has happened has been extraordinary – no one would have believed this growth was possible a decade or two ago” (Khalaf & Tett, 2007).

This is a growth that is supposed to continue even faster in the foreseeable future and it will affect the development of the participation banking industry in Europe. European banks will continue to introduce participation banking¹⁷ and more institutions will be involved in this sector. Participation banks from the Gulf will continue coming to European countries, especially if these countries adapt their laws by skipping double taxation and allowing banks to trade in commodities. European countries will move in that direction because the market seems to be heading that way.

Because of the huge interest in participation banking, European universities will open new courses on the subject and postgraduate studies in participation banking will become very popular.¹⁸ New centres for participation banking will emerge outside London, like Luxemburg, Sarajevo, Paris and Vienna.

As the money flows, some existing opposition to participation banking will die away. The European continent will host new conferences on participation banking and finance. The liquid savings of Muslims, which are outside of the banking system at the moment, will be invested through European participation banks and it will give new incentive to the European economy. In order to meet the expectations of Muslims and others who support participation banking, participation banks have to develop more transparency, educate their employees and clients, harmonize their

products, and improve mechanisms of internal and external control etc. They have to work on the development of new products, which will meet modern human needs, like insurance, pension schemes, investment funds etc.

Conclusion

Participation banking is an opportunity rather than a threat to Europe. It revives European traditions of partnership and cooperation. It opens new dimensions for the banking industry, diverse responsibility and brings people together. Participation banking will increase competition and bring better services with more competitive prices. Participation banking in Europe will open new opportunities for cooperation with the Muslim world and enable European banks to enter new markets. The cooperation is the best way for preventing hostilities that are, unfortunately, still floating in the air between some European countries and the Muslim world. Participation banking is a big opportunity for European banks to activate the savings of European Muslims that are currently outside of banking system. All that has been mentioned gives us the right to predict a bright future for the participation banking industry in Europe.

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(Endnotes)

- 1 First article of Universal Declaration of Human Rights says: "All human beings are born free and equal in dignity and rights. They are endowed with reason and conscience and should act towards one another in a spirit of brotherhood." (Taylor, 2005:353) The Qur'an says: "O mankind! We have created you from a male and a female, and made you into nations and tribes, that you may know one another." (Qur'an, *Al-Hujurat*: 13)
- 2 This principal will allow the best ideas to be recognized pursuant to the rule, "The essence of the things is recognized through their opposites."
- 3 The fact is that in secular states of Europe, frequently, on the scene are atheistic, religious or nationalistic secularisms, where a group has privileges because of its beliefs or national belonging. The culture and products of that privileged group have advantage and that group is better protected and enjoys certain privileges in front of the law. All this is done in the name of secularism. The main condition for having people live in love and peace is to give them equal opportunity in everyday life and make them feel equal in front of the law. Practices of European courts do not give us impression that people are always equal and that they have always equal treatment. This assertion is obvious from examples provided by Taylor in his book *Freedom of Religion - UN and European Human Rights Law and Practice*.
- 4 The products of human beings should be judged according to their usefulness or harm to the society, not on the cultural background of the product. Therefore, the idea of participation banking should be discussed on the basis whether it will be working properly in a certain European environment, whether it will improve economic activities, bring benefits to the society and so forth.

- 5 Because, according to Islam, everyday life is not separated from *Sharia*. *Sharia* provides rulings for every human activity.
- 6 “Non-Muslims now make up half of the OCBC Al-Amin Bank’s Islamic banking customers, says its chief executive. ISLAMIC banking is gaining ground with non-Muslims worldwide due to its strict lending principles, Singapore’s third-largest lender OCBC said today, reflecting industry efforts to transcend religious beliefs to gain market share.”
(http://www.btimes.com.my/Current_News/BTIMES/articles/20081201152232/Article/ Accessed: 30. 12. 2011.)
- 7 The CEO of Islamic Bank of Britain was Christian Michael Hanlon, and CEO of Bosna Bank International in Bosnia & Herzegovina for a period of time was Mr. Andre van Howe, who is Christian too.
- 8 Many European banks have such windows: HSBC, Barclays Capital, ANZ Grindlays, Lloyds TSB, BNP Paribas, Societe Generale, Commerzbank, Deutsche Bank, ABN Amro, Mežkobank, UBS, etc.
- 9 In my free assessment eighty to ninety percent of European laws are in spirit of *Sharia*. In other words, all European laws that aim to establish and upheld justice, protect human lives, dignity, property, religion and offspring, have the very same goals that *Sharia* wants to achieve. Indeed, some of these laws do not always reach the high standards of *Sharia*, so that they do not protect enough these categories, but, nonetheless, they represent wonderful efforts on the part of human beings. These efforts deserve to be praised, because they protect mentioned categories in a great manner. It can be noticed that recently the European legislature on alcohol, prostitution, tobacco, is coming closer to *Sharia* standards, but that process is moving slowly due to the fact that it was not preceded by spiritual preparation and superstructure, and the fact that the groups behind alcohol, tobacco and prostitution are very powerful.
- 10 See: <http://www.henciclopedia.org.uy/autores/Laguiadelmundo/Usury.htm>,
<http://gvanv.com/compass/arch/v1405/fahey.html> Accessed: 23. 09. 2011.)
- 11 See also: Ezekiel 18:8-17; 22:12; Psalms 15:5; and Proverbs 28:8.
- 12 An extensive article on this subject entitled *In the Shadow of Deuteronomy - Approaches to interest and usury in Judaism and Christianity* by Vincent J. Cornell, can be found in the book *Interest in Islamic Economics - Understanding riba* p. 13-25 edited by Abdulkader Thomas, simultaneously published 2006 in the USA and Canada by Routledge. Another article *Comparing Islamic and Christian attitudes to usury* by Mervyn K. Lewis can be found in the book *Handbook of Islamic Banking* p. 64-81, published by Edward Elgar Publishing Limited, UK & USA.
- 13 See also: Archer, S. & Abdel Karim, R. (2002:90-97)
- 14 Due to the fact that banks are normally not interested in those commodities they use parallel *salam* very much.
- 15 Professor Rodney Wilson wrote an interesting article on *The interface between Islamic and conventional banking*, published in the book *Islamic Banking and Finance - New Perspectives on Profit-Sharing and Risk*, p.196-214. He concludes that: “Islamic banks and conventional banks should not regard each other as a threat. They of course compete with each other, but not usually by the pricing of their services. Instead Islamic banks compete by offering differentiated products that they believe will appeal to Muslim clients given their *Shariah* compliance.” (Iqbal, 2002:211)
- 16 In 2005 I was invited by JAK bank to attend a seminar on their operations. In two days they presented how the Bank operates. I did not have any remarks from the *Sharia* point of view, as far as no-interest loans were in question.

- 17 They will do it because it is a world trend. Many leading banks in the world introduced participation banking like American: *Citibank, JP Morgan/Chase, Goldman Sachs* i *UBS Warburg*, British: *HSBC, Barclays Capital, ANZ Grindlays, Lloyds TSB*, French: *BNP Paribas, Societe Generale*, German: *Germany's Commerzbank* i *Deutsche Bank*, Dutch *ABN Amro*, Russian *Mezkbank*, Japanese *Nomura Securities*, Swiss *UBS*, etc.
- 18 The biggest problem which participation banks are facing is lack of employees skilful in this industry. It is a problem for the banks that are in the industry for quarter of a century, like Abu Dhabi Islamic bank. In 2002 I visited UAE. The CEO of Abu Dhabi Islamic bank Mr. Abdurrahman Abdulmalik, *rahmetullahi alayhi*, mentioned to me the lack of skilful employees as a big problem for the Bank. We can imagine the situation of the conventional banks which have been transformed into participation in the past few years, or transforming itself these days. They are in dear need for people knowledgeable in participation banking.