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Islamic Finance and Conventional Financial Systems

The main center of Islamic finance in Europe is UK which is flanked by Luxembourg and Ireland, which is becoming increasingly important. Other countries are interested in the phenomenon, but the presence of Islamic finance is sporadic: France and Germany offer some Islamic funds and in France a Moroccan bank offers Islamic current accounts.
In Italy there is interest in the phenomenon but is currently limited to debates, without market developments.

In Europe, Islamic finance has focused on issue and trading of sukuk: United Kingdom and Luxembourg are the two most important financial centers. A second area of business for Islamic finance in Europe is the management of Islamic funds, while the retail banking is still at an early stage and at the moment is confined to Britain, where there are twenty banks offering Islamic financial services.
The development of Islamic finance globally has been favored by the search for funding and ethical investments and Shariah-compliant by the growing Muslim population, along with the need to invest significant cash flows.

In some countries, the support of the authorities in the sector has been a key element: Malaysia, for example, has made the promotion of Islamic finance one of the pillars of the promotion of the country, integrating reforms on regulation side, with the promotion and construction of an “Islamic financial infrastructure”.
From the point of view of demand, in Europe there is the possibility of meeting the financial needs of the growing Muslim population; France and Germany have a great potential market with a population of Muslims living of over four million. The consequences of the crisis, together with the strong link between Islamic finance and the real economy, are a powerful element of the promotion of the sector.

From the supply side, there is an increased know how of the phenomenon by financial institutions in Europe, a factor that could lead to a greater development of Islamic finance and the possibility of attracting funds from Middle Eastern countries and there is also potential for financial intermediation for international business.

However, there are some possible future challenges:lack of standardization of products, due to the lack of a unique interpretation, problems related to liquidity management, problems of communication and marketing, aspects of the ethical dimension and differences in regulation and supervision approaches that would require an harmonization.

From the Central Bank’s Perspective, in countries where Islamic finance has developed, the support of government authorities was fundamental: in England were set the task forces, as well as Luxembourg, Ireland and France and another key element was the legislative changes

The role of the Bank of Italy is to do, as supervisors, documentary checks and inspections, controlling the capital stability and ensuring the correct and prudent conduct of financial institutions in order to: enhance financial stability, protect the interests of depositors and promoting fair competition.

Islamic and traditional banks basically face similar risks, although with some differences due to the their balance sheet structure; as result Islamic banks should be subject to prudential regulation.

Analyzing Islamic finance in Italy , the Italian legal framework is composed of International rules, Community laws and Primary and Secondary domestic laws. As a consequence should an Islamic bank enter into the Italian market, it would be subject to the Italian regulatory framework for supervision.

As final remarks Islamic banking doesn't look strictly incompatible with our existing regulatory framework, but is important to find solutions in order to adapt the peculiar business model of Islamic banks to the regulatory environment; Islamic finance is gaining momentum, but raising awareness on the topic remains important (for benefits that may arise from the creation of an inclusive financial system and from the attraction of Middle Eastern investments) and the lack of a unified regulatory framework has limited the expansion of the Islamic banks in Europe.