Introduction to the Practices and Institutions of Islamic Finance Between the Islamic World and the West

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Abstract This paper is an introduction to the practices and institutions of Islamic finance. It is very important to establish which Islamic countries have introduced an economic system based on Islamic law and which have introduced a dual system. It is also important to know where the first Islamic bank was born to understand the evolution of the spread of the Islamic banking system. To understand how an Islamic bank works it is important to understand what are the tools that it uses, and especially the international rules which must be respected in order to diffuse the Islamic system. The rules that banks must follow are the Basel Accords II of 2004 that established the appropriate asset, the Capital Adequacy Ratio (CAR), and prudential regulation. In the Islamic financial system also equity instruments were created that comply with the rules of Shari'ah, called Sukuk. Recently an Islamic insurance system, called Takaful, was also authorized. Finally, the Islamic system is also allowed in countries that they are not Muslim such as England, France, USA and Switzerland. England is the European country which is becoming the European hub for managing capital that coming from Gulf. In conclusion, it is important to remove legislative obstacles present in Italy to create an Islamic bank.

Keywords Islamic bank · Shari'ah · Sukuk · Takaful · Interest

The contrast between the two dominant economic models, the liberal and communist, is no longer sufficient to explain the complexity of the economic and financial systems since the fall of the Berlin Wall, the disintegration of the USSR and the various economic crises, which occurred in 1929 in the USA and the Asian one in 1997.

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The ethical values of these ideologies were focused on a single goal of profit maximization, through the development of tools that would limit the risks and losses, such as financial instruments called “Derivative”.

This system was able to penetrate even in Islamic countries, which reacted in two different ways, creating a division in the Arab world:

- Nations like Iran and Pakistan that since the late 1970s had rejected this system, based purely on interest rates and speculative practices, adapted their financial system to Islamic precepts based on the prohibition of interest rates, speculation and uncertainty. In Iran in 1984 the “Law for usury-free banking operation” (Hamauri and Mauri 2009) was promulgated with the aim of eliminating the practice of the interest from the internal banking sector. In Pakistan, in 1984, the interest rate was eliminated with some exceptions. In fact the interest rate was practiced for foreign currency accounts, loans to foreigners and for Pakistan’s debt (Wilson 1990).
- States like Saudi Arabia, Malaysia, Egypt, had accepted the Western model but at the same time allowed the development of banks which would respect the rules of the Koran.

The first Islamic bank, the Mith Ghamr Local Saving Banks, was established in 1963 in Mith Ghamr, Egypt, to solve the problems of the farm’s debt and to offer new investment instruments to the more orthodox Muslim population (Wilson 1990). After the 1973 oil crises, many similar institutions were created in order to provide products that complied with the prohibition of the interest rate (*riba*), uncertainty (*gharar*) and speculation (*maysir*), like the *Dar al-Mal al-Islami* in Saudi Arabia (Warde 2010).

Currently the most involved countries in the creation of the Islamic banks are Saudi Arabia, Malaysia, Bahrain, Qatar, Turkey, United Arab Emirates which are the most important financial centers of Islamic finance. Centers for Islamic banking studies, International Universities and Islamic financial institutions were created (Atzori 2010).

The development of this new system is going very slowly and it happens purely whenever the Western system suffers a systemic crises and thus exposing all its critical points and inefficiencies.

Since the 2007–2008 crisis some economists are looking with more interest at the Islamic financial model because the various financial provisions created by the United States and Europe have allowed the spread of the crisis in the rest of the world. In the global context, the Islamic world seems not to have been struck by the default of the conventional system of these years.

The main reason is that the Islamic financial model is built on a different ethical basis since a Muslim bank must meet the requirements of the Shari’ah, such as the prohibition of interest rates, speculation and uncertainty.

Seen from outside, the Islamic bank seems like a conventional bank: it works like a normal fund manager, collects the deposits of its customers through bank accounts or investment accounts, uses the sums at its disposal to lend and generate earnings, or carries out operations in sharing in the financing of projects, risking the paid-up capital (Hamauri and Mauri 2009).

A peculiarity of the Islamic bank is the presence of investment accounts, collection tools, where the depositor has no protection of the deposit and does not get a fixed remuneration linked to an interest rate. This remuneration depends on the earnings of the bank (Farhi 2010).

Other banking operations are not loans with interest rates but exchange contracts, which represent 50 % of banking activities, participating contracts, which represent about 8 %, and leasing contracts (Hamauri and Mauri 2009).

As required by Islamic principles, which prohibit *riba*, uncertainty and speculation, two categories of activities were created for the management of funds. The first one is called “Profit & Loss Sharing” (PLS) activities which arise from the “classical Islamic society” (Piccinelli 1994) and are used to acquire stakes in companies, for real estate transactions and bank contracts, adopting:

- Musharakah contracts: partnerships with unlimited liability where members join the different capitals;
- Mudharabah contracts: capital and labor companies.

The second category is called “Not Profit & Loss Sharing” (NO-PLS), adopted in the sale of real goods and the transfer of usufruct (Piccinelli 1994). The most important contracts are:

- Murabahah contracts: the bank buys and sells real goods to its customers with a mark-up;
- Ijarah contracts: they consist in Islamic leasing;
- Salam contracts: sales with immediate payment and delayed delivery;
- Istisna’ contracts: used for the financing of assets not yet completed such as building projects.

The PLS system does not guarantee full repayment of deposited or employed funds. Indeed when a possible financial loss exceeds the reserves of the bank, the excess is charged on the capital deposited by the customer.

Another feature of the Islamic bank is the presence of the Shari’ah Board which, in addition to the Shareholders and Directors, has the task of certifying the work of the bank and monitors whether it complies with the rules of Shari’ah. The certifications are expressed by the issuance of a *fatwa*.

Because of the main characteristics described above, the Islamic bank analyzes in detail the business projects that are submitted to it, checking carefully the operating performance and financial investment in respect to the Pillar I on the regulatory capital of the Basel Accord II.

In addition to the control provided by the Shari’ah Board, Islamic banks must comply with the Basel Accords of 1988 and 2004 on prudential regulation and capital adequacy (Van Greuning and Iqbal 2008). This is guaranteed by the supervisory review which has two objectives: the first one is to assess whether the banks maintain adequate capital necessary for the risk inherent in their business profile and business environment; the second objective is to encourage banks to implement policies and internal processes to assess and manage capital adequacy that are commensurate with their risk profile, operation and business strategy. The

role of supervisors is to check if the bank's internal capital targets and capital position are consistent with its risk profile and strategy.

Since 1999, the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) has developed the formula for determining the appropriate asset by establishing a minimum of 8 % for the adequacy capital ratio (CAR). However the individual Central Banks have the possibility to increase this percentage, as for the United Arab Emirates it must be at least 12 %.

For Islamic banks the formula CAR is the following (Hamauri and Mauri 2009):

$$\text{CAR} = \text{TC}/\text{RWAK} \text{ and } \text{AC} = 50 \% (\text{RWAUIA})$$

where, TC is total capital, RWAK and CA, is risk-weighted assets financed with equity capital and deposits and RWAUIA is the risk-weighted assets financed with deposits.

In 2005, the Islamic Financial Services Board (IFSB) has modified the formula devised by AAOIFI, creating a standard formula for all Islamic financial institutions (Hamauri and Mauri 2009):

$$\text{CAR} = (\text{Tier 1} + \text{Tier 2})/(\text{RWA} - \text{RWapsia})$$

where, Tier 1 + Tier 2 is the equity capital, and RWA – RWapsia is the risk-weighted assets inclusive of loans financed by equity capital and deposits and a share of the portfolio of deposits and investments.

Initially, the Islamic banking activities were strictly related to the commercial sector, but gradually the Islamic finance began to develop other instruments such as bonds, shares and insurance instruments, while remaining linked to the restrictions laid down by the Shari'ah.

The term *Sukuk*, plural of the word “*Sakk*”, meaning certificate, points out the operation with which a certificate is issued attesting the ownership of the share of an underlying asset, which is necessary in order to finance the activities of a third party.

A special purpose vehicle (SPV), with legal personality is created in a country with favorable tax conditions, which will receive from the one who needs capital, ownership of assets or property, and issue sukuk certificates, which will be sold to investors (Miglietta and Dell'Atti 2009).

At the end of the term, ownership will be returned to the original owner and investors will be remunerated at a price that was previously established.

These new financial instruments could be a great tool for businesses, corporations, but also for States in order to receive funds without going to affect the public or private debt.

The geography of the issuance of sukuk sees a prominent role of the Gulf countries, with about 62 % and Asian countries with about 36 % of all emissions (Cakir and Raei 2007).

It should be noted that the sukuk market has unexpectedly affected also Western countries and European countries in particular.

In Europe it was the German state of Saxony-Anhalt to establish the first Sukuk issuance: 100 million euro, on 31 July 2004 (Wilson 2007).

The concept of insurance is alien to Islamic doctrine since the believer cannot obstacle or change his fate because it is determined only by God, and only God is the true connoisseur of the future of man.

According to this principle, the Islamic world has always prohibited any tool that could somehow change the human destiny.

Nevertheless, an insurance product acceptable for Muslims was authorized at the end of last century, when, in 1985, the Great Council of Islamic Jurists of the OIC, which met in Saudi Arabia, officially declared the impossibility of practicing conventional insurance contracts and instituted *Takaful*, an insurance product of mutual nature (Hamauri and Mauri 2009).

With the tool of the *Takaful* believers have the opportunity to participate in the creation of mutual funds in which to pay the premiums and from which to draw for the payment of compensation for the benefit of those who suffer an accident. In this way the owner of the insurance fund and the insured are the same person.

The *Takaful* is devoid of *maysir* but not of *gharar*, as there remains the element of uncertainty if the incident occurs or not. To overcome this obstacle the Maliki school said that the relationship between the insured and the insurance fund should have the legal status of “donation” (Miglietta and Dell’Atti 2009). The premiums paid by individuals are considered as donations that help the faithful participating in the fund.

In the GCC countries the growth of this sector has increased from 0.6 % in 2000 to 1,3 % in 2010 offering an alternative investment to approximately 36.1 million Muslims, but it is still low compared to the rest of the world, where he achieved a market share of 6.9 %.

For over 10 years the Islamic world has benefited from the development and competence of the Western financial system, studying what happens in the conventional sector in order to learn to respond to any unforeseen occurrence and to benefit from every development. In order to expand into international markets, Islamic finance needs to ensure that the guidelines are respected by all institutions working in the field.

For a better management of services and contracts common standards are needed that can ensure coordination between the various institutions of various countries.

For these reasons, in 2002 the Islamic countries have decided to create international financial institutions, such as the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI), the Islamic Financial Services Board (IFSB), the Islamic Development Bank (IDB), the International Islamic Financial Market (IIFM), the Islamic International Rating Agency (IIRA) (Siagh 2008), whose primary goal is to ensure the consistency of procedures, standards of management, control and coordination among the various actors in the sector, in accordance with the international standard and the Basel Accord II and III.

With the economic globalization there have been changes in the financial sphere, which are based on the opening of the economy to the international market, on the free movement of capital, on financial products and on the technological evolution. But in addition to these positive changes, globalization has also shown the most dangerous and destructive part in the absence of rules and constant vigilance.

The lack of checks and rules at the global level has led to pursuit the logic of maximum profit in the shortest possible time, leading to the financialization of the real economy through purely speculative practices.

The liberalization of capital movement started in 1980 in the United States with the approval of Depository Institutions Deregulations and Money Control Act in the last months of the Carter Administration, then seconded by President Reagan (Di Gaspare 2011).

This first step towards deregulation undermined the stability that was previously guaranteed by the Glass-Steagall Act of 1932 (Di Gaspare 2011) which claimed the separation between commercial banks and investment banks, kept the financial system linked to the real economy and through control of the Securities Exchange Commission (SEC).

The economic globalization definitely broke the boundaries in 1994 with the creation of the World Trade Organization (WTO) and with the acceptance by the member countries of the Protocol on the freedom to provide financial services. The immediate liberalization of capital flows led to the crisis of the so-called Asian Tigers in 1997.

The American economy, since the 1980s, suffered a continuous slowdown. The US as a great power which exports goods became the country with the highest indices of imports, shifting definitely the balance of payments.

Following governments continued on the same path of deregulation separating the financial system from the real economy, all focusing on financial innovation, thus attracting capital from oil-exporting countries and all the states that had good trade surpluses.

All this was encouraged by the policy of low interest rates, that the Federal Reserve was determined to pursue to make the dollar an attractive currency on international markets and to stimulate Americans to borrow more and more money to maintain a high level of domestic consumption.

Therefore the current global crisis is the result of a non-regulated environment that has changed the international system and the old way of raising funds by depositors.

This has been substituted by the extraction procedures of the risks contained in a mortgage, excessive risk-taking and the creation of a huge debt.

Which are the milestones?

After the approval of the Depository Institutions Deregulations and Money Control Act, in the United States, in 1999 the Financial Modernization Act (FMA) was adopted, which removed all obstacles to direct operations with financial tools of commercial banks and insurance companies.

In 2000 the Commodity Futures Modernization Act (CFMA) was passed, which authorized the trade of products based on financial risks deriving from loans or other banking products, called Credit Default Swaps (CDS) and Collateralized Debt Obligations (CDO), removing the control of the Regulatory Authority, the Securities Exchange Commission (SEC) and the Federal Reserve (FED).

In 2002 President George W. Bush decided to modify the Commodity Reinvestment Act (CRA) to facilitate access for poor Americans to credit granting loans without sufficient safeguards, so-called “sub-prime mortgages” and other

loans called “NINJA”, which stands for “no income, no job, no assets”, which do not require any checks on the reliability of the debtor (Di Gaspare 2011).

Finally, in 2004 the Securities and Exchange Commission (SEC) has authorized the investment banks to make debt.

The straw that broke the camel’s back was the sub-prime mortgage crisis which caused a fall of the prices of real estate, the stock market crash, the slowdown of the US economy and the loss of billions of dollars by banks and investors (Leggio 2011).

The banks began to have liquidity problems. If the debtor could no longer service its debt, the property passed to the bank, which put it back on sale. But as real estate prices continued to fall below the value of the loan bestowed, the bank could not get the cash invested initially.

Eventually even the negative effect on the global economy of the opinions of the Rating Agencies on derivatives should not be forgotten, because their opinions were not neutral and true, judging junk-products with the highest level of reliability, assigning triple-A.

Other criticisms relate to the international agreements that the supervisory authorities of major countries decided to create uniform rules to extend the control and supervision of banks.

These are the Basel Accords of 1988, which stated that the bank’s assets are its main defense and therefore must be proportionate to the risks they undertake.

The agreements established strict, but circumventable rules, so that financial institutions were able to create products that could not be included in the budget and therefore reduced the required capital reserves.

Also the following Basel II Accords of 2004 created favorable conditions to the spread of new banking products by introducing the evaluation of the Rating Agencies.

In this international context, the Islamic world would seem to remain excluded from the misadventures of Western financial economy, but in reality it was also affected, albeit indirectly.

Unlike Western economies, the countries of the Gulf area have been affected by the crisis as it had repercussions on the real economy, showing its depressant effects in the second half of 2008 until the first half of 2009, with the reduction of bank credit, growth of liquidity injected by the government authorities and rising inflation (Khamas and Senhadji 2010).

The impact of the US subprime mortgage crisis was limited because the Islamic banks had no toxic assets in their portfolios, but the collapse of the real economy weakened the system forcing governments to intervene in the banking sector by injecting liquidity in order to not slacken the national economy.

The economic system of some Gulf countries is not totally islamized but uses a dual system, as in the case of the United Arab Emirates, where the civil law is anchored to the Shari’ah and commercial law follows the rules of international trade.

Comparing the performance of Islamic and conventional banks, the first have fared better in terms of profitability and credit growth, although in 2009 the Islamic banks have recorded some downturn.

This improved performance is due to the fact that Islamic institutions can operate only through real assets, but one of the effects of the crisis was the slowdown in credit growth, although average is twice as high as the one of conventional banks during the period 2007–2009 (Khamas and Senhadji 2010).

Even governments stepped into support banks with a substantial reduction in public spending in order to have greater liquidity to dedicate to the banking sector, like in Kuwait, thus receiving a positive opinion by the Rating Agencies.

This economic crisis did not even leave unscathed the debt instrument of the sukuk, which had been increasingly used up to the middle of 2008. The global emission grew to 5 billion US dollars between 2001 and 2004, the share reached more than \$ 32 billion in 2007 before falling to 15 billion in 2008 and then rose to 22.3 billion in 2009, because in the same year almost a quarter of the public debt of the countries of the GCC was financed by sukuk securities.¹

In the last 2 years there has been an improvement in the Islamic banking and finance in countries that adopt the dual banking system like Malaysia, Bahrain, Saudi Arabia, and also in countries where the market is completely Islamized, like Iran and Pakistan.

The best results Islamic finance is having in recent years are due to the larger amount of money that Muslim states have at their disposal thanks to the sale of hydrocarbons, but mainly due to the low propensity to speculation, not allowing investments in Western markets affected by the sub-prime mortgage crisis, and the value of Islamic banking sector is 500 billion of dollars and this sector is growing by 10–15 %.

In addition, Islamic banks are constantly monitored by the internal board, such as the Shari'ah Board, which controls and decides whether the activities conform to the dictates of Islamic law.

Finally, the banks, in order to finance projects submitted to it, do not evaluate the solvency and guarantees of the customer, but evaluate the feasibility and the economic return of the project, as they are funded only by real assets.

After some success mainly due to the large accumulated capital from the sale of oil, excellent results were obtained in the microfinance sector with the launch of various programs to develop rural areas, where the real operation of the Islamic principles can be seen, like the Jabal al-Hoss Program in Syria in 2000 (Frasca 2008) or Hodeidah Program in Yemen in 1997 (Segrado 2008).

The characteristics of the micro-credit programs are to grant short-term loans, on average less than 12 months, with weekly or monthly repayments of amounts received through a Murabahah contract.

With the need to provide financial assistance for people in countries in transition, it was noted that Islamic banks, their risk aversion and their contracts to participate in profits and losses, are well prepared to carry out programs that aim to support and increase the income of the poorest areas of the world.

Furthermore, it seems more likely that in countries not yet industrialized the Islamic bank model has more opportunities to develop an industry that aims mainly to increase the number of companies that will lead to faster development of the society.

¹ <http://www.le-banche.it/finanza-Islamica/sukuk-il-mercato.php>.

In Europe the countries most involved in the field of Islamic finance are England, France, Germany, Belgium and Luxembourg, but also other countries are timidly approaching the study of this area.

In the United Kingdom, first the Bank of England in 1998 and then the Financial Services Authority (FSA) opened up to Islamic finance.²

Since early 2000, the government introduced a series of tax changes and specific legislation to remove barriers to the development of the Islamic banks. The work of harmonization continued with the Finance Act of 2003, eliminating the double payment of stamp duty on mortgages contracts by Muslim customers, and then with the Financial laws of 2005 and 2006 by introducing other Islamic products in the same frame of fiscal conventional banking. The Finance Act 2007 has clarified the tax under the sukuk securities.

The law regulating the banking and financial sector is the Financial Services and Markets Act (FSMA) of 2000, which declares that anyone who wants to conduct a regulated activity in the UK must enroll in the appropriate registers prepared by the Financial Services Authority (FSA) for the necessary authorizations under Part IV of FSMA 2000 (Wilson 2007).

The approach taken by the English Financial Authority is based on the principle “no obstacles, but nothing special favors”, avoiding any discussion of religious nature.

The Financial Services Authority has identified three potential areas where you may encounter a conflict with the laws of England:

1. Regulatory definition of products.
2. Role of the Supervisory Shari’ah Board.
3. Financial promotions: they operate when a new banking product is put on sale.

The first Islamic bank authorized to operate in England was the Islamic Bank of Britain (IBB) in 2004, immediately clashing with the definition of “bank deposit”, as in the Western tradition, the customer has the full assurance of being repaid until the bank has reserves to ensure the solvency of the contracts (Wilson 2007).

The compromise adopted between the IBB and the British authorities was that the Islamic Bank of Britain had to accept the legal right of depositors to be repaid in full, but the possibility to waive the deposit guarantee for religious reasons complying with the requirements of Islam was also given to customers.

In March 2008 there was the first government issue of sukuk on the London Stock Exchange with a value of \$ 350 million through the Kingdom of Bahrain and structured according to Islamic requirements (Ainley et al. 2007).

Italy is one of the European countries where the development of an Islamic banking system is still in its infancy, but changes are necessary because of the steady growth of the Muslim community living in Italy and the need to remain competitive on the international market.

To exercise banking activities in Italy can be used several ways (Gomel 2010):

- Opening of a branch of Islamic bank of a country outside of Europe.

² Islamic Banking and Finance (2009).

- Creation of an Islamic bank under Italian law but controlled by an Islamic bank in another European country.
- Creation of an Italian Islamic bank.

The main problems that exist within our legal system concern the changes to the law governing the banking sector, the “Testo Unico Bancario (TUB)” Act of 1993 (Porzio 2009).

The first difficulty arises from the definition of “collection of savings”, which is regulated by Art. 11 TUB (De Nova 2011), because the bank has to provide a guarantee on the deposited amounts, that the capital returned to the depositor is not less than the funds deposited initially.

This article contrasts with the way of operation of an Islamic bank, which does not guarantee the return of capital, in accordance with the principle of sharing losses and profits.

A second obstacle derives from Art. 14 TUB (De Nova 2011) because it is necessary to determine accurately the name and legal form of the bank, even though in Italy there are institutions that have received a formal banking license but then do not exercise the two traditional functions of a bank.

Another critical issue for the Italian legal framework, but of fundamental importance for the Islamic system, is the sharing of losses and profits between customers and the bank.

Art. 2549 (De Nova 2011) of the Italian Civil Code regulates the institution of the “Association in Participation” that would fit well in the Islamic banking system as it ensures the share of any profits while Art. 2553 (De Nova 2011) regulates the participation in losses.

According to the Italian system Islamic banks as well as conventional banks, should participate in the Interbank Deposit Protection Fund to protect the client’s funds, although this institution is contrary to the principle of sharing.

A possible solution could be the one adopted in England, where the Islamic bank must formally agree to guarantee the protection of deposits leaving the customer the option to waive this warranty, adapting to the Quranic principles.

Other obstacles can be found in the administrative organization and supervision of the Islamic bank. It is essential to underline the role of the Shari’ah Supervisory Board, which cannot act as a controller of the compliance of banking products to Islamic law as contrary to Art. 53 of the Banking Act which assigns the internal controls to the Central Bank of Italy.

There are also problems related to taxation, because in our system should be eliminated double taxation that might affect any Islamic mortgages using Murabahah or Ijarah contracts.

After seeing what are the difficulties from a legal point of view we must ask whether the Muslim population is so strong economically to make the development of Islamic banks worthwhile.

In this regard, we can mention the study of the bank Monte dei Paschi di Siena, in 2009–2012 analyzing the Islamic banking system in Europe and then focusing on the characteristics of Italy.

The study showed that the resident population of Muslim faith in our country represents 1.7 % of the total in 2010, while for 2015 it is expected to increase by 0.4 % rising up to 2.1 %. Eventually for the year 2050, experts say that with this growth rates they could reach 4.2 % of the total population.³ In numerical terms, it means that there are currently around 1,006,797 Muslims living in Italy, in 2050 there could be 2,599,123.

Monte dei Paschi di Siena estimated that the Islamic banking sector could have a turnover of about 170 billion euro in revenues, while the collection may be about 4.539 billion euro by 2015.

Italian banks, as well as hypothetical Islamic banks from other European countries, should identify products in which they should invest most.

Islamic banks could increase the financing sector through Murabahah and Ijarah contracts to finance simple structures, covering the demand for mortgages, personal loans or loans for small and medium-sized businesses, with the purchase of real goods, leasing and commercial loans.

It would be more risky and less profitable to finance major projects through PLS contracts.

In Italy, the Islamic banks would achieve a lot of success and could even benefit from the climate of the economic crisis since they would meet the demands of small and medium-sized businesses that are not satisfied by conventional institutions.

The creation of Islamic banks could bring enormous benefits to the whole country. Italy maintains excellent business relations with the countries of the Maghreb and the Middle East and could attract huge amounts of capital from these countries, with the opportunity to finance infrastructures that are needed.

A concrete example of the use of Islamic financial instruments could be represented by financing the restoration of the Colosseum in Rome.

It could be granted in usufruct to a special purpose vehicle (SPV) entity which issues sukuk bonds. The earnings from the sale of tickets, paid every year by millions of tourists, could be used to repay investors.

Even the construction of major infrastructure such as motorways could be funded by the same mechanism and granted in usufruct to a specifically created SPV, which will issue sukuk bonds and then pay investors with the proceeds from payments of tolls.

In conclusion, we can say that in the Italian case, the development of Islamic banking could be done initially through the creation of “Islamic windows” offered by conventional lenders, reducing the cost of management using market knowledge and economies of scale with which the bank operates conventionally.

The birth of “Islamic windows” would be a first approach to assess how profitable the Italian Islamic banking system can be and it could be the first step in the creation of future Islamic banks descending from conventional institutions as well as other foreign banking groups have already created Islamic brands, which are part of the same group, such as HSBC Amanah.

³ <http://www.mps.it/Investor+Relations/Comunicati/Archivio/Indagine+Area+Research+su+finanza+Islamica.htm>

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