

Islamic Banking's Role in Economic Development: Future Outlook

Keywords: Economic Development, Financial Crises, Futures studies, Islamic Banking, Profit-Loss Sharing

Research Questions

This research addresses the following questions, given the increasing instability in the conventional monetary and financial system which now faces serious crises:

- What major trends are going to matter the most during the ten years time?
- How does the application of the profit-loss sharing scheme in Islamic banking contribute to economic development?

Research Methodology

In this research the inductive and normative method will be used by examining the research questions and studying relevant publications.

Literature on the model of banking based on profit-loss sharing first emerged in the late forties and fifties and more developed and detailed writings on the concept of interest free Islamic banking were published in the sixties and seventies. Unfortunately however very little quantitative material and empirical data on Islamic Banks is available for analysis due to the short time period that Islamic banking institutions have been operating for.

This investigation has therefore had to rely heavily on theoretical work and the findings and studies of others. Theoretical work on Islamic banking covers several aspects and focuses mainly on the operating procedures of Islamic banks and the possible socioeconomic consequences of the new system.

In order to formulate responses to the research questions, STEEP analysis will be used to analyse the current status of the Islamic banks environment and to form an assessment of areas of emerging impact.

Data for the research will be collected using individual interviews by the researcher, and literature research. This will include a comprehensive list of issues relevant for the future of Islamic banking. A primary research tool done through interviews with leading banking executives on a wide range of subjects connected with the future of Islamic banking and finance have been conducted.

The research aims to influence governmental policy, business entities, academia, and communities to develop a better vision of the future. To explore the alternatives of what will happen in the future and applying the futures studies methodologies which help in creating visions for the future. Therefore, future thinking with its systematic approach is essential for Islamic banks to achieve systematic development and economic stability.

Overview of Islamic Banking Concepts

Islamic banking is a financial system whose key aim is to fulfil the teachings of the Holy Quran. Islamic law reflects the commands of God and this regulates all the various aspects of a Muslim's life and hence Islamic finance is directly involved with spiritual values and social justice.

The theory of Islamic banking is based on the concept that interest is strictly forbidden in Islam, and that Islamic teachings provide the required guidance on which to base the working of banks. The basic principle that has guided all theoretical work on Islamic banking is that although interest is forbidden in Islam, trade and profit is encouraged.

Conventional banking uses the interest rate mechanism to carry out its financial operations. Muslim scholars have developed a completely different model of banking

that does not use interest but rather relies on profit-loss sharing for purposes of financial intermediation.

The basic principle in Islamic law is that exploitative contracts or unfair contracts that involve risk or speculation are impermissible. Under Islamic banking, all partners involved in financial transactions share the risk and profit or loss of a venture and no one gets a predetermined return. This direct correlation between investment and profit is the key difference between Islamic and conventional banking which has its main objective in maximizing shareholders wealth. (Dar and Presley, 2000)

Various pillars exist that allow Islamic banks to deliver competitive performance and promote socially and ethically responsible business practices. Of these, the three main pillars that contribute to improvements in quality of life throughout society include Shari'a supervision, screening and community based investment.

Shari'a supervision by a qualified Shari'a advisory board is an essential component of the Islamic financial structure. The board consists of prominent scholars who are well versed in Islamic law that relates to transactions and business dealings. The board is supposed to be independent and screens investment strategies, implementation, monitoring and reporting (Zaher and Hassan, 2001)

The second main pillar known as screening, involves the activities of including or excluding publicly traded securities from investment portfolios or mutual funds based on the religious and ethical conditions of the Islamic law. Some businesses are not in keeping with Islamic laws and the stocks from such companies are therefore excluded. (Zaher and Hassan, 2001)

Community based investment programs provide capital to those who are unable to access it via conventional channels. These community-based investments allow people to improve standards of living and assist them to develop small businesses and create jobs. (Zaher and Hassan, 2001)

History and Growth of Islamic Banking

Islamic banking has established itself as an emerging alternative to interest based banking and has grown rapidly over the last two decades both in Muslim and non-Muslim countries. Islamic banks have recorded high growth rates in both size and number and operate in over 60 countries worldwide and bankers predict that Islamic banking could have control over 50% of savings in the Islamic countries within the next decade. (Ahmad, 2004)

The practices and activities of Islamic banks reflect the environment in which they are based. There are strong retail operations in Iran and Saudi Arabia. In the secular societies of northern Africa, Islamic banks compete on the quality of products rather than on religious grounds. In Kuwait, financing has focused on the petroleum sector and real state investment and in the United Arab Emirates, the emphasis is on trade and finance. (Zaher and Hassan, 2001)

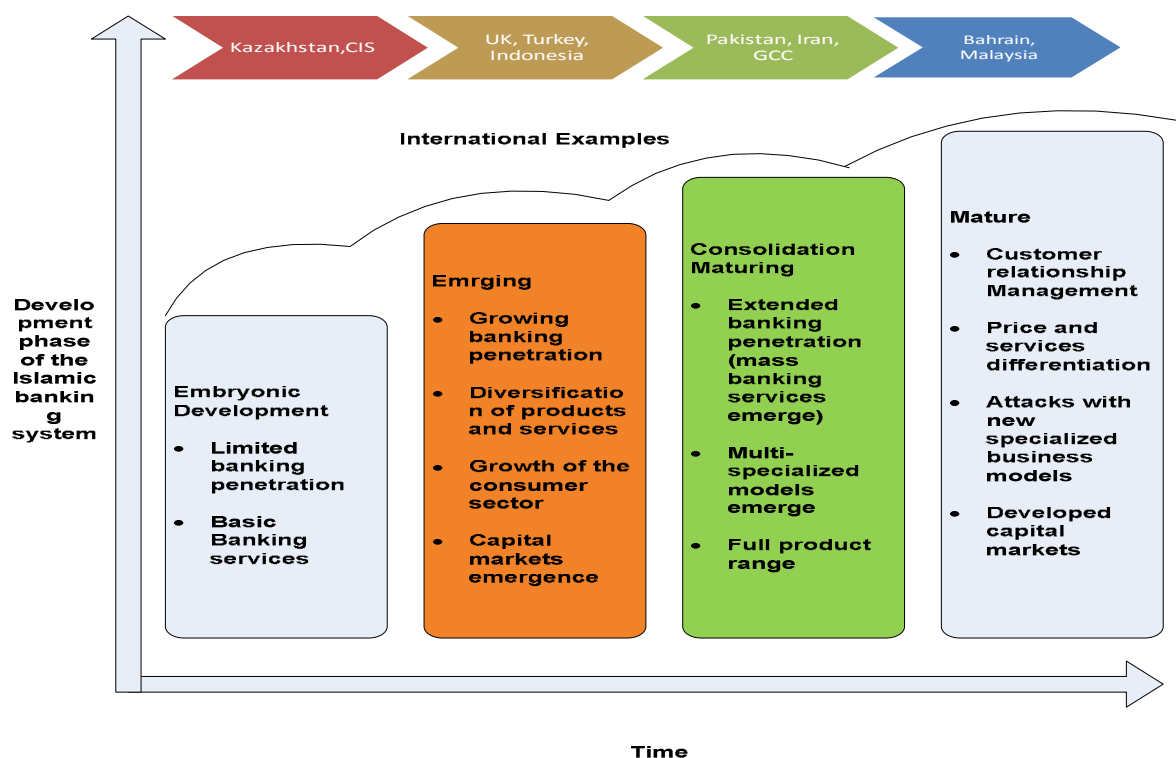


Diagram (1): Development phase of the Islamic banking system

Economic development

According to the American economic development council (1984), “Economic development is the process of creating wealth through the mobilization of human, financial, capital, physical and natural resources to generate marketable goods and services”.

The concept of the Islamic economic system as described in all its aspects focuses on the worship of the creator, which includes man’s duty to develop life on earth, thus securing a decent standard of living for the individual. Islam stresses that man is the principle agent for developing life on earth and hence the development of man is a required condition for the development of society. (El-Ghazali, 1994)

The large number of economic ills, including poverty, social and economic injustice, inequalities of income and wealth, economic instability and inflation of monetary assets are all in conflict with the value system of Islam.

It is the responsibility of the money and banking system to contribute to the achievement of socio-economic development and hence eliminate such economic ills. The principle goals and functions of the Islamic banking system include economic well-being with full employment and maximum rate of economic growth, equal distributions of income and wealth and as a result socio-economic justice, and the generation of sufficient savings and their productive mobilization and stability in the value of money. (Chapra, 2000)

Review and Analysis of Literature

There is much more inequality in the distribution of income and wealth today than there has ever been in the past, both within and between nations. Inequality is growing and this is regarded as a threat to social and economic stability. A large part of the blame is laid on the monetary and financial system.

This practice has its origins in the fact that western banking institutions have profitability rather than social imperatives as their primary concern. The result of such practices is unequal income distribution, highly skewed towards the wealthier portion of society, and unjustly deprives non-property holders of gaining access to finance.

According to the World Bank Research Observer (1996), commercial banks prefer to lend to low-risk activities and are reluctant to finance high risk projects, even if such projects present better investment opportunities. They are also less willing to finance small firms that don't have adequate collateral.

In contrast, fostering serious economic development is a key objective of Islamic banks as they seek to maximise social benefit. Islamic banks therefore work hard to overcome shortages and difficulties to help the economy to progress to a higher stage of self-sustained development, resulting in a favourable effect on socio economic harmony due to equal income distribution.

It has been widely claimed by development economists that policy and resource allocation is strongly focused on large firms and that existing banking institutions prefer to grant credit facilities to clients who are able to offer sufficient collateral security.

According to Abdouli (1991), Kahf, Ahmad and Homud (1998), Siddiqi (2002), and Iqbal (1997), maximizing of profitability is not the only concern for Islamic banking institutes and the principles that Islamic banks are based on are deeply integrated with ethical and moral values. They also state that Islamic Banks do not depend on tangible collaterals and lead to a better distribution of income, allowing access to finance for those in poorer classes of society, and resulting in greater benefits for social justice and long term growth.

In contrast with conventional methods, Islamic financing is not centred only around creditworthiness but rather on the worthiness and profitability of a project, and therefore recovering the principle becomes a result of profitability and worthiness of the actual project.

Entrepreneurship and risk sharing are therefore promoted by Islamic finance and its expansion to the unwealthy members of society is an effective development tool. The social benefits are clear, as currently the poor are often exploited by financial institutions charging usurious rates. (Iqbal, 1997)

The nature of Islamic banking operations are directly affected by the success or failure of client enterprises as a result of the profit-loss-sharing process (Abdouli, 1991). The relationship is based on a partnership, with cash being entrusted to bankers for investment, and returns shared between depositors and bankers. Losses are carried by fund owners. This sharing principle is very different to traditional banking practices. It introduces the concept of sharing to financing and creates a performance incentive within the mind of bankers that relates deposits to their performance in the use of funds. This increases the deposit market and gives it more stability (Kahf, 2002).

Iqbal (1997), Martan, Abdul-Fattah, Jabarti, and Sofrata (1984), and Ziauddin (1994) are of the opinion that Islamic bankers encourage people to invest as investment depositors receive a share in the bank's profits.

Investors are motivated by the human desire toward ownership, high rewards and the satisfaction of being part of a successful project (Martan et al, 1984). Issuers of Islamic finance have wider latitude in financing services and negotiate a profit share between zero and 100 when dealing with savers and investors. This allows them to better mobilize resources and attract investors as a higher profit share results in lower finance costs. (Ziauddin, 1994)

According to Iqbal (1997), the economic development of Islamic countries can be greatly enhanced by the Islamic financial system due to the mobilization of savings that are being kept away from interest based banks and the development of the capital markets. This motivation to invest in Islamic banks may also stem from the fact that research shows that the share in the bank's profits may at times be higher than the fixed rate of interest given by conventional banks.

Some of the literature on Islamic banking states that replacement of interest by profit-loss-sharing may result in high instability of the entire economic system as problems originating in one part of the economy will rapidly spread to others. However the general consensus is that interest-free banking tends to enhance stability and it is in fact interest based debt financing that contributes to economic instability.

Islamic finance allows a closer link between real economic activity that creates value and financial activity to be forged. According to Iqbal (1997), the Islamic financial system can be expected to be stable due to the elimination of debt financing and enhanced allocation efficiency.

Analytical models show that the Islamic banking system is stable as the term and structure of liabilities and assets are symmetrically matched through profit-sharing, lack of fixed interest costs and the impossibility of refinancing through debt (Yusri, 2005).

Chapra (1992), Kahf (1982), Siddiqi (1983) and Zarqa (1983) all support the idea that profit sharing is more stable than the interest based system resulting in prevention of fluctuations in rates of return. It has been pointed out that interest based debt financing is a major factor in causing economic instability in capitalist economies. As soon as the bankers find that business concerns are beginning to incur losses they reduce assistance and call back loans (Yusri, 2005).

In an Islamic banking system more stability is experienced as in times of crisis investment depositors automatically share the risk due to profit-and-loss sharing, meaning that individual banks as well as the entire banking system is less likely to break down (Zaher and Hassan, 2001).

The focus of Islamic finance on profitability and rate of return of investments due to equity and profit sharing has the potential of directing financial resources to the most productive investments and hence increases the efficiency of the financing process and in the real sectors (Kahf et al, 1998).

Economic development requires mobilization of financial resources both internally and externally and any resources left hoarded indicate unrealized potential for economic development.

Qureshi (1984) and Nagvi (1981 and 1982) claim that Islamic bankers are increasingly exposed to risk due to equity-based financing, however Islamic scholars believe that the elimination of interest increases stability. In financial theory a linear

relationship exists between risk and return, meaning that low risk is associated with low return and high risk brings about high return. (Chapra, 1992)

Risk is a key component of making investment and investors share the risk involved with those carrying out investment activities. Islamic finance provides depositors with some influence on investment decisions and gives banks and financial institutions a share in the decision making process. This allows both risk and decision making to be spread over a much larger number and variety of people, allowing wider involvement in economic activities (Ziauddin, 1994).

In a study by Turen (1996) on the risk analysis of Islamic banks, he states that as interest is abolished for deposit holders and replaced by profit-sharing, the fixed interest payment is minimized or eliminated and therefore Islamic banks experience higher coverage of interest charge ratios and therefore lower financial risks.

A further study by Samad and Hassan (1997) that compares an Islamic bank with a group of conventional banks shows that Islamic banks are less risky than conventional banks. Sarker (1997), however, found that the risk involved in profit sharing is very high, but states that many external factors and obstacles interfered with the proper implementation of the Islamic banking system.

Sarker (1997), Samad and Hassan (1997), concluded that if Islamic banks are supported with appropriate banking laws and regulation, they can provide efficient banking services which encourage economic development.

From the literature it is evident that both theoretically and empirically, economists find Islamic banking viable, acceptable and also efficient and significantly effective in developing the economy.

Islamic Banking Instruments Contributions to Economic Development

Islam encourages the earning of profit as profit symbolizes successful business dealing and creation of new wealth. Interest on the other hand is a cost that is in place regardless of the outcome of business operations. If business losses are experienced,

there may not be real wealth creation. Social justice requires that lenders and borrowers share both profit and loss in an equitable manner and that the method of accumulating and distributing wealth in the economy is fair and represents true productivity (Iqbal, 1997). To achieve these goals, there are several modes of finance used in Islamic banking, which are discussed below.

Murabaha

A kind of “cost-plus” transaction in which the bank buys the asset then immediately sells it to the customer at a pre-agreed higher price payable by instalments. This facility is often used in the way that mainstream banking customers might seek a mortgage when buying property.

The most preferred method of financing for many Islamic banks due to the simplicity of the model. Murabaha has no direct effect upon poverty reduction, but indirectly it provides a good tool for an efficient deferred sale, providing business men the asset of its choice and providing banks profit for the effort and risk that it tool. Murabaha has little effect on the reduction of unemployment; there is no clear study on the effect of Murabaha on inflation.

Musharakah

This is a partnership, normally of limited duration, formed to carry out a specific project. Participation in a Musharakah can either be in a new project, or by providing additional funds for an existing one. Profits are divided on a pre-determined basis, and any losses shared in proportion to the capital contribution. In this case, the bank enters into a partnership with a client in which both share the equity capital- and maybe even the management -of a project or deal, and both share in the profits or losses according to their equity shareholding.

Musharakah encourages partnerships, also created jobs for many people in society, promotes enterprise and partnership ventures, creating jobs in the country, promotes business enterprise culture in society and growth of skilled people. Musharakah has a potent effect on controlling inflation and spread of baseless credit, promoting joint

ventures without potent investigations and research ensures business successes, not speculations.

Mudarabah

A form of investment partnership between a bank and a business that shares the risk and losses/profits between both parties at pre-agreed levels. A mudaraba transaction, bringing some of the benefits of a business loan to shariah-compliant business customers, effectively requires the bank to take a stake in the business, with clients investing their time and expertise in running the enterprise.

Mudarabah is a very potent tool for removing interest from the society by providing an interest free tool for skill utilization and it can especially help in mobilizing resources of the society by employing them as a manager, while banks will provide the finance and also bear the chances of profit and loss, which is absent in interest based financing for venture capital. Mudarabah has a significant effect on reducing the unemployment in both the short and long run, as it encourages business management by skilled people and promotes commercial activity. Mudarabah also helps control inflation by promoting interest free business activities. Interest and credit creation of banks through lending are the major source of inflation in society. Mudarabah involves bank or other capitalists bearing in both profit and loss, and not just making earnings through a predetermined interest rate exploiting the needs of individuals or firms.

Ijarah (Leasing)

A form of shariah law-compliant leasing involving the rights over the use of an asset under which the bank buys the asset then leases it to the customer over a fixed period in return for a pre-agreed monthly price. Provisions can be made for the customer to buy the asset at the end of the agreed period. Thought needs to be given to issues such as the provision of insurance, as the asset is effectively owned by the bank during the lease period.

Ijarah has no direct effect upon poverty reduction and has a little effect on reducing unemployment. However, it has great potential for protecting against inflationary harms to middle class people and entrepreneurs, by allowing the use of assets without sudden cash outflows. It enables them to modify or replace, even after some months or years, their equipment or machinery without much cash flow swings. But Ijarah, like ordinary lease, can sometimes leads to inflation itself if the economy is working at the full employment level, then boosting demand of goods which will further increase prices in the market.

Istisna

Istisna, another form of forward sales contract, is a longer-term financing mechanism under which a price is agreed before the asset described in the agreement is actually built. Sellers can then either create the asset themselves or subcontract, with buyers also having the option of paying the entire sum due either in advance or as installments during the manufacturing process.

Istisna is especially useful in the housing sector, boosting the construction demand, creating employment and wealth to society without harmful effects of interest. It has also good effects on the reduction of unemployment by boosting construction and house building activities in society. Istisna has a little effect on inflation control.

Salam

A kind of forward sales contract which requires the buyer to pay in advance for goods that are to be supplied later.

Salam is very useful in reducing agricultural sector poverty easily, by enabling the banks and farmers to contract with each other of the crops and to get finance at an appropriate time, instead of usurious loans, which ultimately deteriorates through the compounding of interest. Salam also has great potential in reducing rural sector unemployment and reduces trend towards urbanization, by enabling farmers and agriculturists to work. Salam engages them at villages and towns, thus decreasing the unemployment burden. This generates agricultural and rural sector development and

eventually more income for these poor people. Salam has a great effect on reducing inflation, where food stuff has reached its peak prices, the main way it cuts inflation is through ensuring increased aggregate supply and reduce food product deterioration by use of pesticide and fertilizers at appropriate times, boosting the yield of land and farms to much extent.

Mode of Finance	Poverty Control	Control Unemployment	Control Inflation
Murabaha	✗	✗	✗
Musharakah	✓	✓	✓
Mudarabah	✓	✓	✓
Istisna	✓	✓	✗
Salam	✓	✓	✗
Ijarah	✗	✗	✗

Diagram (2): Islamic Banking Instruments Contributions to Economic Development

The effect of a bank’s activity on economic growth will therefore depend on which modes of finance and investment the bank undertakes most, and how much each one of these modes contributes to economic growth.

At present, fixed return modes of financing are dominating usage by most Islamic banks – modes such as Murabah and leasing. Even though these are clearly distinguishable from interest-based modes, as transactions are always done through real commodities, they do not yield the full benefits in terms of promoting growth with equity which is expected of an Islamic financial system. Specialists in Islamic financial theory had counted on Islamic banks to provide a significant amount of profit-sharing finance, which would have had economic effects similar to direct investment and would have produced a strong economic development impact. However, due to practical difficulties, profit-sharing finance has remained negligible in the operations of Islamic banks (Al Hallaq, 2006)

Going Forward, Islamic Banks Need to Act on Three Fronts

The tremendous growth of Islamic Banking in the past few years has meant that it is facing important challenges. However, the regulatory and supervisory institutions established under the Islamic finance industry architecture have already been tackling most of the issues related to these challenges.

Despite the substantial amounts of work done so far by them, a lot remains to be done to ensure the future success of this industry. For example, until now reliable data on the industry is not always available and transparency is insufficient and social responsibilities of the industry is not clear. In the following section, the major challenges that the Islamic banking industry faces are reviewed.

For the purpose of this study an STEEP analysis has been conducted, in addition to a questionnaire survey which was made with a view to enabling the theorists and practitioners of Islamic banking and finance to take stock of the situation and plan for the future. The focus will be on the current situation & future trends that might affect the Islamic banking Industry within the coming years. More attention is paid to discovering points of weakness than to projecting the points of strength. It indicates the distinctive features of Islamic banking and finance that make it different from the conventional theory of banking and finance. Both the original vision of the Islamic economic system and the growing awareness of what is needed for meeting the challenges facing human society today are kept in view.

Professional studies of the future have been part of the executive arsenal for around 40 years. Futurism is the process of discovering what trends will change our world, analyzing their potential impact on specific activities, and then communicating what lies ahead.

The Future of anything is like an ecosystem. It is made up of a variety of systems and activities. For this reason, the first step is to analyze the Islamic banking industry, to understand the drivers of change. Based on this analysis, the futurist then builds a deeper understanding of his own assumptions, which will help in detecting the threats

and opportunities early, and decide what the ideal future is. Thinking of Islamic banking as part of a larger ecosystem is a big step towards understanding where the future is heading.

STEEP analysis is one of the most basic tools to study the market, which stands for trends in Society, Technology, Economics, Ecology, and Politics. In the Islamic banking environment, the following diagram highlights the major elements that have an effect in the Islamic banking industry within STEEP analysis:

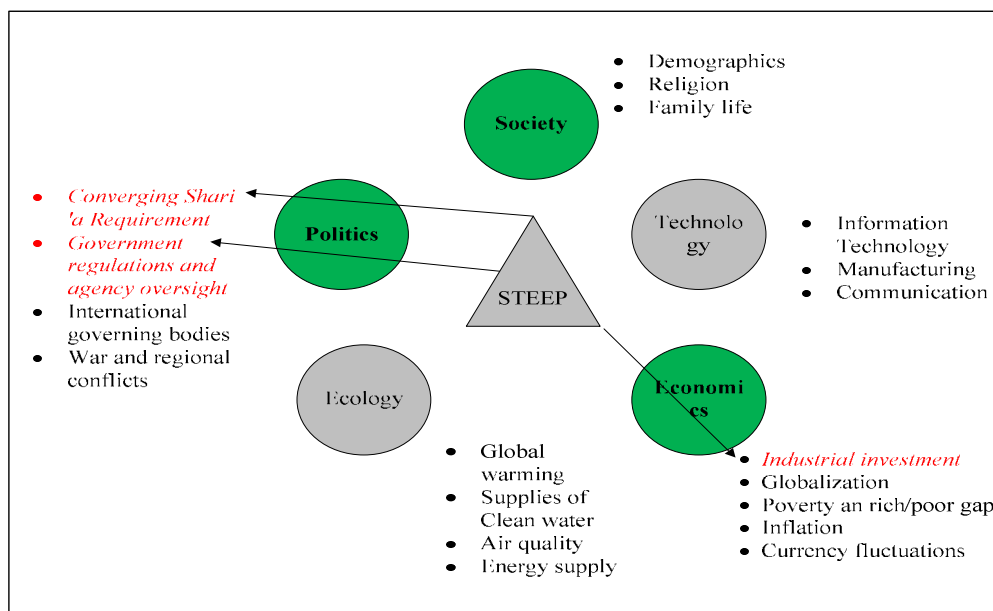


Diagram (3): STEEP analysis

For the purpose of this research we will be focusing on three major trends affecting the Islamic banking Industry, and how these trends interact. It's the interconnection of all these trends at once that causes seemingly chaotic, unexpected change. It is not the trends themselves, but their interaction, which can cause new inventions.

Viewing everything we do as part of a larger system, introduces us to a world that is constantly evolving, even when we think that the subject of our study is relatively straight forward. This study demonstrates that each aspect of the system is on the move.

During the last twenty years, a large-scale growth in Islamic finance has grown in Muslim countries and around the world. This growth was a result of several factors

such as the desire for socio-political and economic systems based on Islamic principles and a stronger Islamic identity. The introduction of broad macroeconomic and structural reforms in financial systems, liberalization of capital movements, global integration of financial markets, and introduction of innovative and new Islamic products have also paved the way for the expansion of Islamic finance. Islamic finance is now reaching new levels of sophistication. However, a complete Islamic financial system with identifiable instruments and markets is still at an early stage of evolution. Many problems and challenges relating to Islamic instruments, financial markets, and regulation must be addressed and resolved.

Based on the questioner survey results and STEEP analysis, the further growth and development of the Islamic financial system and the role that it is expected to play in the economic development depends on the following: regulatory framework, Shari'a requirements convergence, and the directing of investments to the industrial sector.

In a stable financial system, an ideal effective and efficient regulatory structure is said to promote financial markets that are:

- I. Liquid and efficient where there exist free flow of capital and it is allocated properly given the underlying risks and expected returns;
- II. Transparent and fair where information must be reliable and relevant and must flow in a timely and fair-handed manner to all market participants; and
- III. Ethical and sound where market participants must act with integrity and in accordance with principles of unassailable conduct as they make capital transactions and other selected activities. (Abdul Rahman, 2007)

The success of regulators in this case is seen in terms of the extent to which they can build investor confidence in the integrity and fairness of transactions in the financial market and the extent to which they are able to develop the markets in the direction of better transparency, greater competition and hence greater efficiency.

The goal of regulation is to ensure the fair, efficient and transparent operation of the Islamic industry while at the same time protecting investors. On the other hand, laws and regulations should not discourage risk-taking, but regulations should make sure

that investors have reliable information on which to base their decisions. Hence, the role of the regulator is to ensure that strong investor protection is in place through effective surveillance and enforcement as well as enhance the level of competition in the marketplace and facilitating product innovation, an optimal and efficient level of regulation will boost investors demand for Islamic products, hence this will participate in economic development.

Of further importance is the attainment of the convergence of Shari'a principles and interpretation to ensure market confidence among investors from different parts of the world. To achieve this, there needs to be continuous investments in intellectual capital and greater engagement among Shari'a scholars. The regular engagement that is now taking place among the scholars is already producing this convergence.

The Shari'a governance is the nexus for a comprehensive regulatory and supervisory infrastructure. It is the brain of the Islamic financial regulatory and supervisory infrastructure as the overall compliance of Islamic financial business will solely rest on the adequacy and efficiency of the Shari'a governance. If it is ignored, we will have a limping infrastructure. The policy makers need to scrutinize the components of the Shari'a governance to appreciate the complete links Shari'a governance provides to the oversight of the Islamic financial services in their country and to the optimal objectives (Maqased Alshari'a) of Islamic finance and how that could contribute to economic development.

The way the Islamic financial system has progressed so far is only partly, but not fully, in harmony with the Islamic vision. It has not been able to fully come out of the strait jacket of conventional finance. The use of equity and PLS modes has been insignificant, while that of the debt-creating sales- and lease-based modes has been predominant (Chapra, 2010) Many of the Islamic banks globally, and especially in the GCC, are real-estate oriented; so this could be a major risk factor. The relative profitability of Islamic banks, especially in the Middle East in recent years, was to a large extent due to the property (real estate) boom.

“One of the biggest weaknesses in Islamic finance is that too many of the banks have gone into real estate and equities and both of these are underperforming”, said Saad

Rahman, Islamic banking executive director of one of the Islamic investment banks. A study by Khan revealed that Islamic banks had a preference for trade finance and real estate investments. The study also revealed a strong preference for quick returns, which is understandable in view of the fact that these newly established institutions were anxious to report positive results even in the early years of operation.

Islamic banks can develop its current products in addition to innovate new financial products to avoid the problem of narrowing the investments mainly in real estate. This can go concurrently with the introduction of new non-traditional markets. This strategy includes shifting Islamic Banks toward developing new products and new markets at the same time. Islamic banks can apply the concept of Islamic Comprehensive Bank by diversifying its investments beyond the financial sector, by direct investment in the economy, like investing in factories, hospitals, and industrial firms.

Conclusions/Findings

Through this research the profit-loss sharing scheme and its application to the future of the Islamic banks was analysed and its contribution to economic stability and development was investigated. The following conclusions were reached:

- The Islamic profit sharing concept helps to foster economic development by encouraging equal income distribution and which results in greater benefits for social justice and long term growth.
- The profit-loss sharing scheme improves capital allocation efficiency as a return on capital depends on productivity and the allocation of funds is based on the success of the project.
- The profit sharing scheme encourages investment because investment depositors receive a share in the banks profits. This increase in investors will implicitly result in the increase in employment.
- The Islamic financial system is more stable than the conventional banking system due to the elimination of debt financing. It also reduces inflation in the economy as the supply of money is not permitted to go above the supply of goods.

- Islamic banks are less risky than conventional banks as both investors and entrepreneurs share any risks that are involved in the business.
- Applying STEEP analysis as a tool could provide better understanding of the financial market. Therefore, futures thinking are essential for Islamic banks in order to achieve economic development.
- Islamic banks should develop its current products in addition to innovate new financial products to avoid the problem of narrowing the investments just in real estate. This can go concurrently with the introduction of new non-traditional markets.

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