

# ISSUES OF DEVELOPMENT ISLAMIC FINANCE IN THE UNITED STATES

Veronika Semicheva<sup>1</sup>

<sup>1</sup> ORCID 0000-0002-5101-7350

RUDN University

Institute of World Economy and Business, Department of World Economy

Mikluho-Maklaya Street, 117198, Moscow, Russia

E-mail: semicheva\_vo@pfur.ru

***Abstract:** Islamic financial services industry shows its viability and is less exposed to crisis phenomena, unlike other financial institutions. This article is about the development of Islamic Finance in the USA. It deals with the history, roots and the establishment of Islamic Finance in the USA.*

*Islamic finance industry in the United States has grown significantly over the past 5 years, unlike other countries in the world, thanks to domestic demand. Most of this demand is accounted for the home financing products; over the past 15 years, more than 10,000 transactions have been completed in accordance with the Islamic legal code.*

*The analysis of the difference of Islamic Finance from those of the US is also provided in the article. A distinctive feature of Islamic Finance is that all financial transactions comply with Sharia, the legal code of Islam, which is based on the precepts of the Quran and the Sunnah.*

***Key words:** Islamic Finance, financial institute, Islamic banking, USA*

***JEL codes:** G21, G24, N22*

## 1. Introduction

Formally established in 1970, the Islamic finance industry has many implications for modern finance. Islamic Finance had a very rapid development and now it is estimated at 1.6 trillion. US dollars (Alzahrani, 2019). The phenomenon of Islamic Economy is becoming deeper and deeper and spreading all over the world. Islamic finance has made a tremendous progress due to the technological revolution. The world market of Islamic Finance is rising steadily and significantly owing to the investments into Halal sector, Sukuk bonds and infrastructure mainly with the help of electronic means. The scale of rise is striking more than 2.2 billion \$ with the

projected growth of more than 7% per year until 2022, which two times exceeds the projected growth of the world GDP (gross domestic products).

Generally, as Islamic Finance is called a certain type of finance which match spirit of 'Shariah' which is one of Islamic law, Sukuk is bond type commodity in islamic finance. Islamic financial assets in the world last few years are increased about 30% annually with a speedy growth while vast construction project around middle-east area are developed and consequently, issues of Sukuk are increased swiftly.

The laws regulations of Sharia the further spread of Islamic Financial institutions not only in the USA but also in the other countries. There is a possibility that the lack of information of American investors about the products regulated by the Laws of Sharia has led to the shortage of Islamic Financial goods on the secondary market.

The USA is home to many various financial innovations and trends, the center of the global financial market. The American Muslim population has grown significantly over the past 50 years. The population is estimated at 10 million people and by 2020 will increase to 15 million due to birth. The community has been endowed with a reservoir of highly qualified professionals, business executives. Most of the community members are compelled to violate one of the most basic requirements of their faith and that is dealing with interest; i.e. RIBA(Abdul-Rahman,1999). Islamic finance in the USA date back to 1980, when two institutions were founded in the West (www1).

The retail section began its active development. The services were restricted by the investments and housing financing. The Office of the Comptroller of the Currency officially ratified Ijara and Murabah models for retail property business (Hummel, D., & Goud, B. 2017). In 1986, the Amana Fund was established in Washington and in 1987, the American Financial House LARIBA in California, which mainly provides housing financing for American Muslims. This happened in late 1990-s, when the New York branch of United Bank of Kuwait obtained two interpretive letters issued by the Office of the Comptroller of the Currency to offer Islamic retail banking services in the country (Alharbi,2017).

In 1999 Islamic Dow Jones Index was sent into motion. These index units the principles of Islamic Investment with clarity and methodology, based on the principles of traditional Dow Jones Index.

Unlike other states, the UK, for instance where Islamic finance are more developed the US has no laws the deal with Islamic system. The license standards, which applied to the US institutions, also regulate financial Institutions that offer the service of Islamic finance. It means

that Islamic Finance work under the Federal laws and laws of State the regulate banking and other corporations and their operations (Abdullah,2016).

## 2. Methodology and Data

A retrospective analysis was using to analyze the development of Islamic finance in the United States. International reports “Islamic Fintech Report, 2018” by Dinar Standard were also used to assess the volume of the national market and the place of the USA in the world. Dinar Standard analyzed, as one of the most significant US initiatives for the development of the industry. The results and conclusions based on the methods of generalization, analysis and synthesis.

## 3. Results and Discussion

The market value has been increasing with the increase of Muslim population since then from 50% in the 1990s to 66 % in the 2000s. American business has shown a growing interest and participation in the Islamic Finance lately. Seven Islamic Funds have been set up with the overall bank resources of 3.6 billion \$ which makes up 7.9% of the world figures. Nowadays there are 25 Islamic Financial Institutions in the USA. Which work on the principles of Sharia.

There are many, different banks in the United States of America that provide Islamic banking services. The term "Islamic banks" is now well known not only in the Muslim world, it defines a form of banking in which services to customers are provided on the basis of Sharia principles. Many Islamic banks have been established and operate on an interest-free basis in various parts of the world; thus, three Islamic countries (Pakistan, Iran and Sudan) have made a bold attempt to abolish interest throughout the economy. Significant progress has been made in this area. (Emin & Alexandra 2015).

There are 5 banks in the USA that can be identified as the most promising (Table 1).

**Tab. 1** Islamic financial institutions in the United States of America

Financial institution	Management	Services
LARIBA-The American Islamic Finance House	Run by a Muslim board of directors.	The banking services provided by LARIBA are all in accordance to the Sharia and all of the accounts that provided by LARIBA are

University Bank	Run by an American Board of Directors.	Islamic banking accounts (non-interest banking accounts). Provide Islamic banking or non-interest banking services in the United States
Harvard Islamic Finance Program	Run by Harvard University.	Provide Islamic banking services.
The Guidance Financial Group	Run by an American Board of Directors.	Provides Islamic banking or non-interest banking services.
Samba	Run by a Muslim board of directors.	Provides Islamic banking services.

Source: own elaboration based on (www2)

After analyzing the data can underscore, that the top three banks offering Islamic financial services in the United States in terms of asset size are The American Islamic Finance House, University Bank (through its subsidiary University Islamic Financial) and Harvard Islamic Finance Program. J.P. Morgan started offering Islamic banking services in 2013.

Investment banks, like Standard Chartered Bank, provide Islamic banking products to clients in the Middle East, Asia, Europe and the United States. The bank aims to make Saadiq — its Islamic banking division — a leading global provider of Islamic banking in the Muslim world. The bank provides Islamic personal banking, Islamic priority banking and Islamic business banking services, among others.

These banks overseen by federal regulators such as the Federal Reserve System and must meet the specific state Department of Financial Institutions' requirements.

In particular, can highlight LARIBA Bank Whittier, located in the Los Angeles suburbs, which is regulated by the Federal Reserve Bank of San Francisco, the Los Angeles branch and the California State Department of financial institutions. Yahya Abdul-Rahman, a former Vice President, resigned early from Citigroup in 2003 and converted a local community Bank into an Islamic Bank operating under Sharia law. Since then, the Bank, which provides residential and commercial real estate financing as well as business and trade Finance, has tripled its assets to \$ 10.6 million. Today, its clients are Muslims, Christians and Jews who have private accounts (www3).

Laws, Islam legal code, based on rules of Quran and Sunnah, which offer a wide range of goods and services, the majority of which is applied to house financing. In the modern USA

possible to distinguish three major financial organizations (institutions) American finance house, Islamic finance program and University bank Harvard. Five American companies have issued Sukuk bonds which is one of the most widely spread tools of Islamic Finance in different jurisdictions. The issued bonds are 1,1 billion worth, half of which is GE Capital (www4).

For the last few years, Islamic banks based in Kuwait (Warba Bank), Malasia (Maybank) and Saudi private equity investment firm controlled by the Al Subeaei family have participated in commercial property deals on the territory of the USA.

While certain types of Murabaha and Ijara financing are permitted under U.S. laws, the OCC agreed to Musharaka and Mudaraba's apparent violation of Federal rules prohibiting commercial banks from forming partnerships or owning common stock. The OCC allowed commercial banks to accept «as a reward for a loan a share in the profits, income or profits of the borrower's business or enterprise." This interpretation has allowed commercial banks to obtain a return on equity from a credit transaction without relying on interest, despite the still existing ban on making true equity investments. US credit unions have also adopted a community or partner model that is Sharia compliant.

The major problem that Islamic vendors can face in the USA is too offer goods that correspond to the norms of the Sharia and American norms.

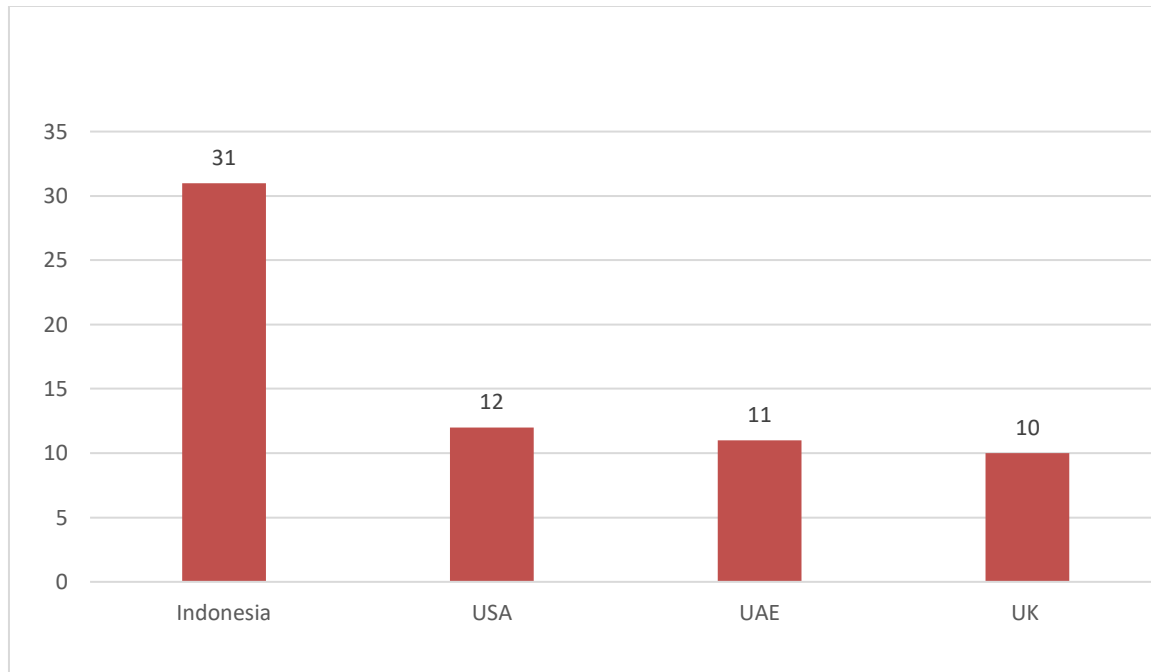
Another problem is the limited number of investments that Commercial banks can offer i.e. any investment that a bank realizes in the USA should limited by a fixed income, which prohibited by Sharia. Among the initiative organizations developing Islamic finance in the USA, several organizations can noted, one of which is Dinar Standard. Dinar Standard is a research consultancy with a branch in Dubai and partner offices in Cairo, Istanbul, Jakarta and Kuala Lumpur (www5). He specializes in innovation, helping to develop marketing and investment strategies with a focus on Islamic, or, as is sometimes called, ethical financing. They are global leaders in the study and foresight of the Islamic economy and its development.

One of such US companies is Cryptocurrency firm based in California, which received a certificate from Islamic scientists for the developed platform and its associated cryptocurrency, with the goal of integrating technology in the field of financial products that comply with Sharia.

Islamic financial institutions attract new entrants through banks and Accent Islamic fintech. The company focuses on access to business finance, as well as on the

consumer. It should note that the United States and the United Kingdom jointly carry out 21 startups, despite a small combined share of the Muslim population.

Fig.1 Breakdown by geography of the Islamic Fintech Ecosystem



Source: (www6)

#### 4. Conclusions

Over the past decade, the Islamic Finance industry has gradually grown and modernized. Despite the fact that the growth is quite modest, we can still conclude that it is. Islamic financial institutions are developing infrastructure that will help the development of Islamic Finance in the United States. The design and development of securitization and Deposit products can bring tremendous liquidity to the industry (Zyp,2009). Launching new startups, investing through banks and FINTECH will all contribute to the development of ethical Finance in the US.

It should be emphasized that the development of Islamic Finance in the United States to a greater extent than in other countries, due to domestic demand. In order to avoid violating US law, many Islamic financial institutions act as leasing companies and real estate brokers, as these structures are subject to less regulation by the authorities. In general, the regulatory laws have not been specifically amended to improve the climate for Islamic financial companies (www7).

Prospects for the development of Islamic Finance in the United States can be assessed as positive: the market potential is huge, the population and the business community has a

tendency to innovation, one of which is Islamic Finance, follows and creates development trends.

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