Contemporary Issues Facing Islamic Banking

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Abstract

Middle Eastern countries with their flushing oil money gave a big boost to the concept of Islamic banking in mid seventies. However, after nearly three decades of functioning since the establishment of Dubai Islamic Bank in 1974 in UAE and the Islamic Development Bank in Saudi Arabia in 1975 it is now well established that Islamic banking has not proved as distinctive as it had claimed to be. This paper attempts to focus on some contemporary issues facing Islamic banking.

Introduction

Problems of Islamic banks could be categorized in various ways; the ideological, theoretical as well as the practical. These difficulties stem from the circumstances created by the existence of Islamic banks in places and regions where they operate in varied economic, legal, administrative, socio-cultural environment. At times in the same country different governments can pose different set of challenges for the Islamic banks.

At the macro level one of the important operational challenges for Islamic banking is its system wide implementation as many of the Islamic countries going for complete Islamization suffer from financial disequilibria. Many Muslim countries borrow huge amount of capital for various purposes like defense, development and other governmental expenses. These borrowings if external are to be paid along with interest despite interest being unanimously declared as prohibited (*Haram*). On the other hand a large portion of the fiscal deficit is financed through borrowing from the central and commercial banks. Governments, very often attempt to lower the costs of these borrowings by repressing the financial system through imposition of several restrictions on the banking system. Expenditure many a times are difficult to reduce. On the other hand raising tax all the time is also not feasible, thus, imposing controls on domestic financial markets for raising revenues becomes the only options. Under these circumstances Islamic banks and other financial institutions are not able to realize their full potentials.[1] Zamir of the World Bank, admits that the countries having higher fiscal deficits have faced daunting task in Islamizing their economy. In his own words, "State-sponsored implementation of Islamic banking has been troublesome mainly because of significant fiscal deficits and balance of payment disequilibria which does not leave much option for the

[1] Iqbal, Zamir, 'Islamic Banking at the Crossroads' in: *Islamic Economics Bulletin,* Vol. 12 No. 4, Aligarh, India, 2002, p.4.

government whose citizen may wish to practice Islamic banking but the economic realities are not very favorable".[2]

Review of the Literature:

Since beginning of the practices of Islamic banking in mid seventies in Arabian peninsula its problems are studied by several experts. One of the earliest propounders and practitioners of Islamic banking while mentioning the problems confronting Islamic banking pointed out[3].

- Islamic banks perform their duties in economic administrative, legal, cultural and social situation where non-Islamic features prevail in one form or the other.
- Islamic banks follow a system, a philosophy and practice that do not meet with nor parallel to the system and practice of hundreds of other banks neighboring them and living with them in the same community.
- The legal problems, laws of countries where Islamic banks operate require that banking should not be subject to any risks. These laws stipulate certain restrictions which do not conform to *Shariah*.
- There are some juridical issues where opinions diverge and unanimity is difficult to obtain, there is little coordination among Islamic banks in this respect.
- There is problem of seeking fast investment of liquid cash where available and the prompt arrangement when needed, as the work of Islamic bank is based on investment through partnership and requires a certain period of time for the study of the project to be financed.

Some other significant problems, mentioned by various scholars are summarized by a researcher[4] who points out; (emphasis added)

- It has (*Islamic banking*) certain boundaries and lacks the conceptual and analytical sophistication of conventional economics.
- Islamic economics has only recently come to be used as a rationale for determining policy objectives and implementation; consequently the data available for analysis are relatively limited.
- There is shortage of scholars sufficiently qualified in the relevant disciplines, Islamic jurisprudence and conventional finance.
- As a result of shortage of relevant data and qualified personnel there is a retardation of the theoretical development of the discipline.
- There has been a failure to establish modes of reasoning which will allow for a particular problem, the relevance of arguments from the *fiqh* or from conventional economics to be determined.
- The lack of criteria for determining whether a whole theory of all possible economic relations or transactions are needed, or if Islamic economics could or should confine itself to particular sectors of the economy or to particular sort of transaction.

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[2] Ibid.

[3] Ahmad Al Najjar, '*Islamic Banks, Achievements & Problems*', in papers on Islamic Banking, New Century Publication, London, 1984, pp.67-72.

[4] Omar, al-Fuad and Abdel Haq, Mohammed, *Islamic Banking; Theory, Practice & Challenges*, Oxford University Press, Karachi, 1996, p.22.

A German economist[5] observes that Islamic banks are facing mainly three sets of problems.

1. Negative image of Islamic banking in the Western Countries and by and large hostile or at least non-supporting role of the governments.
2. Underdeveloped Islamic money market.
3. Islamic banks as practiced have reduced to just of legal alternative to the conventional Banks.

At present, in most of the Muslim (Islamic) countries there are some forms of Islamic banking or financial institutions, which have been, established since the second half of the 1970s. This development has basically taken two forms. The first has been an attempt to establish Islamic financial institutions side by side with traditional banking. In such attempts two types of institutions have evolved; Islamic financial institutions and Islamic commercial banks established mostly in Muslim countries, and Islamic investment and holding companies operating in some Muslim, as well as non-Muslim countries.[6] These institutions compete with conventional banks to attract deposits from Muslims who wish to avoid interest and invest their funds on Islamic principles. Majority of the later types of institutions are established through private initiatives. On the other hand, the earlier form has come out in the shape of an attempt to restructure the entire financial system in accordance with the Islamic teachings.

It is argued that for Islamic banks to function more effectively they should go hand in hand with an overall Islamization of the economy, as unless the whole economy is Islamized purity of the transactions of a particular segment of the economy cannot be guaranteed.[7] However the same argument could be extended at the economy level too as in the present global economic scenario no country can afford to remain a closed economy. Even at the national level if an Islamic bank or a financial institution is functioning with fullest sincerity and integrity as far its Islamic values are concern then its foreign transaction will force it either to compromise on the *Shariah* or to loose the business.

Vogel and Hayes[8] two Harvard University Professors, have classified the government stances on Islamic banking under the following categories:

1. Those that transformed their entire internal financial system to an Islamic form (Iran, Pakistan and Sudan).[9]

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[5] Nienhaus, Volker, “Conceptual and Economic Foundations of Islamic Banking” *Thoughts on Economics*, Vol. 4, No. 3 & 4., Dhaka, Bangladesh, 1994, pp.1-37.

[6] In both cases, by and large the banking operations of Islamic banks are subject to the specific regulations that apply to all banks. Few examples of the first category are Faisal Islamic banks in Egypt and Sudan, the Dubai Islamic Bank, and the Jordan Islamic Bank. Examples of the second that is, investment holding companies having either a national or international character like the *Dar-al Maal Al-Islami* (Geneva), the Islamic Investment Company (Bangladesh), and the Bahrain Islamic Investment Company etc.

[7] Nabil, Nassief, ‘Revival of Islamic Economics; Operational Experience of Faisal Islamic Bank of Bahrain’, *Islamic Financial Institutions*, in Khan, M. Fahim (ed.), Seminar proceedings series no. 27, IRTI/IDB, Jeddah, 1995, pp. 112-114.

[8] Vogel, E. Frank and Hayes, L. Samuel III, *Islamic Law and Finance: Religion, Risk, and Return*, The Hague, Kluwer Law International, 1998, 1998, p.11.

2. Those that embrace Islamic banking as a national policy while supporting dual banking tracks (Bahrain, Brunei, Kuwait, Malaysia, Turkey, United Arab Emirates).
3. Those that neither support nor oppose Islamic banking within their jurisdiction (Egypt, Yemen, Singapore and possibly Indonesia).
4. Those that actively discourage a separate Islamic banking presence (Saudi Arabia & Oman).[10]

   Another scholar sums up the problems faced by Islamic banks in these words, "The recent history of Islamic economics is riddled with a number of paradoxes. First there is a great rift between the economic literature on Islamic finance, and the practical approaches taken by financial experts and practitioners in the area. Second, despite two or more decades of rhetoric regarding the development of uniform standards for Islamic finance, the market remains largely segmented. Third, despite the many juristic questions that are being raised by financial experts and practitioners, very few active jurists operate in the area. Fourth while those jurists have approved a number of new financial contracts that are extensively used in the Islamic finance industry, those same jurist have consistently criticized the overuse of those same contracts that they have declared to be Islamically permissible."[11]

Another Arab scholar while identifying the key weaknesses faced with Islamic finance mentions that lack of uniform regulatory and supervisory regime; absence of consensus on legal rulings; inadequate transparency; and failure to develop standardized contracts, short term liquidity and investment instruments are the major issues.[12]

Some other scholars criticize Islamic banks for not being able to fulfill the objective of becoming an original and innovative system based on risk sharing that promised for social and economic benefits to the Islamic world. He calls that mere introduction of religion into finance can foster unscrupulous behavior which can result in Islamic moral hazard.[13]

Islamization of Economy:

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[9] Attempts have been made by few countries to Islamize whole of their economy, but the degree of successes of these attempts are yet to be established. Author of the present paper is not convinced that any country has yet achieved a significant success in this regard.

[10] The Kingdom of Saudi Arabia is only a late entrant of the commercial form of Islamic banking. There is no sign of Saudi governments' opposition to the Islamic banking as a concept. In fact the first Islamic bank i.e. Islamic Development Bank was established at the Saudi soil.

[11] El-Gamal, A. Mahmood, 'The Economics of 21st Century Islamic Jurisprudence', Fourth Harvard University Forum on Islamic Finance, *Islamic Finance: The Task Ahead,* Cambridge MS, 2002, p.7.

[12] Jassar al Jassar, 'Islamic finance: Success, Prospects and Neglected Areas', Fourth Harvard University Forum on Islamic Finance, *Islamic Finance: The Task Ahead*, Cambridge, MS, 2002, pp. 173-177.

[13] Warde, Ibrahim, 'Islamic Finance: A Quarter Century Assessment', Fourth Harvard University Forum on Islamic Finance, *Islamic Finance: The Task Ahead*, Cambridge MS, 2002, p. 201.

Three countries, Pakistan, Iran, and Sudan are reported to be in the process of Islamizing their economy.[14] Governments in these countries have taken initiatives to transform the whole economy on Islamic economic principles. However, this has not been an easy task especially when these motives, in certain section of the people, are taken merely as political gimmick. Economic and social conditions of these countries are such that hoping any positive gain in the near future would be no less than a miracle. Political turmoil, economic dependency and moral degradation are rampant.[15] One can never be sure if any good can be done to Islamic banking by the countries that are not only economically backward but also politically instable. In the present era of global finance repressive economic system with heavy dependence upon foreign aid cannot serve the purpose and interest of interest free banking.

After the official declaration of Islamization the banks in these countries are reported to be complacent regarding their customers as they think that customers have no other option to turn to, secondly, banks have not attempted to market their own Islamic identity.[16] One of the reasons mentioned about banks' unwillingness to not to market their Islamic identity is the possible fear of loss of profitability of these banks due to increasing base of underprivileged customers. Third, banks try to externalize the cost of Islamization by not putting their own effort to educate the people concerning Islamic principles. Professor Wilson calls it abnegation of responsibilities by institutions supposedly have become Islamic.[17]

Economic Islamization in Pakistan:

The process of Islamisation started since July 1979 when the operations of the Investment Corporation of Pakistan, National Investment Trust and House Building Corporation were remodeled on Islamic lines. Profit and loss sharing on the accounts of commercial banks was introduced with effect from 1st January 1981. Since 1985, the commercial banks claimed to have switched over to PLS banking. However, the issue of Islamisation resurfaced in 1991 when the Federal *Shariah* Court (FSC) confirmed in its judgment that switchover to Islamic banking had not taken place. The Federal *Shariah* Court in 1992, declared all forms of interest-based banking un-Islamic. The Shariat Appellate Bench (SAB) of the Supreme Court on December 23, 1999,[18] upheld the judgment and directed the government to eliminate all forms of interest based banking by June 30, 2001.

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[14] Chapra, M. U., '*The Future of Economics: An Islamic Perspective*', Leicester, U.K., The Islamic Foundation, UK., 2000, pp. 279-95.

[15] Of them, one is among the topmost corrupt countries in the world with more than 32% of its total population earns less than Rs. 650 per month and more than 70% of its total revenue goes for interest payment only. (See, Khan, Husain, 'Budget-IMF Friendly, Poor Unfriendly', *Impact International*, Vol. 32, No. 9, September 2002, p.39), another is one among the most isolated from the rest of the world and the third is one among the poorest of the world.

[16] Wilson, Rodney, ' Competition in Islamic banking', in *Islamic Financial Markets* (ed.), Wilson Rodney, Routledge, London., 1990, p.24.

[17] Ibid.

[18] *The News International*, website: www.jang.com.pk/thenews/index.htm, Friday, December 24, 1999.

United Bank Ltd. (UBL), a state-owned bank, filed a review petition against this FSC-SAB ruling in the Supreme Court of Pakistan (SCP). The Government of Pakistan supported the UBL review petition against the ban on interest-based banking. In its defense the government maintained that implementation of the FSC-SAB judgment will create enormous problems for the domestic, western-style banking and the economy, as well as Pakistan's official and private business and financial dealings with the outside world. Taking notice, the Supreme Court of Pakistan, extended the deadline by one year to June 2002.

Yet in another turn the Supreme Court of Pakistan (SCP) has now revoked the proposed ban that was to become effective from June 30, 2002, and has now sent the case back to the FSC and directed review all matters of the present banking and financial system. In its present judgment, setting aside the 1991 and 1999 rulings, the SCP said the case has been made by UBL, the government and those appealing against these orders because "there are errors floating on the surface of record". The bench headed by the Chief Justice of Pakistan further observed in its ruling, "We are of the considered view that the issues involved in the matter require to be determined after thorough and elaborate research and comparative study of the financial systems which are prevalent in the contemporary Muslim countries of the world". The Supreme Court also said that Justice Dr. Tanzilur Rehman, the then chief justice of FSC that gave the 1991 ruling had "delivered the judgment with a pre-determined mind, and had relied on views he himself had expressed in his own books and writings on interest-based banking and economy. Justice Rehman had also ignored opinions of globally known Islamic scholars and jurists including Sheikh Mohammad Abduhu, Sheikh Rashid Rida, Abdul Razzak Sanhuri, Sheikh Mahmood Shaltut the former rector of Al-Azhar University at Cairo, and the present rector of the university Dr. Muhammad Sayyid Tantawi".[19]

The government of Pakistan removed Justice Taqi Usmani, who had been sitting on the Shariat Appellate Bench for the last two decades and had been instrumental in the process of Islamisation in the country.[20]

In their review petition the UBL[21] and others put following challenging and pertinent questions that are albeit necessary to make one ponder upon;

1. Is there any single bank in the Islamic or Non-Islamic world, which is truly run on an interest-free basis?
2. Can a Central Bank conduct its monetary policy without a norm of interest?
3. Are not the practices of Islamic banks a queer blend of interest-based modes of finance carrying a façade of Islamic names?
4. What are exactly the Islamic compliant instruments of finance? Can these instruments meet the myriad and diverse needs of modern trade, finance and banking?

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[19] Aftab, Muhammad, 'Landmark ruling to impact the banking sector' *Arab News*. Note: Pakistan Supreme Court Ruling received at the discussion forum of ibfnet@yahoogroups.com 2002.

[20] Ali, Rafaqat, *The Dawn* June 07, 2002.

[21] *The Dawn*, 12, February 2000

5. When and where have these instruments been applied and with what degree of success?
6. Does the Islamic Development Bank as the model Islamic bank operate on interest-free basis? If that is the case why did it offer to extend a loan to the government of Pakistan after nuclear detonation at an interest rate of 5 percent above LIBOR?
7. By what mechanism can Islamic banks undertake financial intermediation, which is the primary function of all commercial banks throughout the world?

Above-mentioned questions are very important and serious not only in the context of Pakistan but to the Islamic banking industry as a whole? Because of certain obvious reasons people are forced to think Islamic banking merely a window dressing of interest based conventional banking.

Chapra,[22] one of the senior Islamic economists acknowledges that Pakistan has done much less in terms of providing the necessary legal and institutional underpinnings needed to make the system work honestly and efficiently than what has been done in a number of industrial and developing countries where the conventional financial system prevails. Chapra also admits that Pakistan does not serve a worthy example of Islamization. It seems to be gradually moving away from the socio economic goals of Islam in spite of the great deal of lip service being paid to it by the government.[23]

A case study of Iran and Pakistan banking system conducted by two IMF staff[24] mention three major issues behind the problems faced by Islamic banking in these countries, which are firstly, legal framework; these countries lack the well defined legal system, specifying the domain and limitations of property rights and contracts that fully correspond to the established banking system and the Islamic law. Secondly, fiscal policy objectives and Instruments; the government of these countries have been unable to formulate non-interest based instruments for financing budget deficits, 'thus the government, which is the major exponent of the implementation of the Islamic system, is forced to raise funds through borrowing on the basis of a fixed rate of return'.[25] Thirdly, inadequate financial infrastructure; this has two dimensions one the general and the other specific. The earlier one relates to the lack of familiarity with the requisites of Islamic business ethics emanated from lack of knowledge regarding Islamic ethical rules. The latter relates to the long-standing problem of inadequate education and training on the part of staff and personnel within the banking system.[26]

Another study by a senior economist of Pakistan[27] specified three main reasons for the failure of Islamic banking institutions to effectively abolish interest from the operations of financial institutions that are:

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[22] Chapra, 2000, op. cit. p. 282.
[23] Ibid, p. 283.
[24] Iqbal, Z., and Mirakhor, A., 'Islamic banking: major issues of transition', *Journal of Islamic Banking and Finance*, Karachi, Vol. 4, No. 4, 1987, p. 26.
[25] Ibid.
[26] Ibid. p.27
[27] Khan, M. Akram, 'Islamic Banking in Pakistan: The Future Path', All Pakistan Islamic Education Congress, Lahore, 1992.

a) Lack of political will.
b) Absence of awareness about the potentials of Islamic banking.
c) Inexperience of the banking sector.

Another Pakistani economist in his essay[28] *Islamic banking as practiced now in the world* has given some detail account of the failures of Islamic banking in Pakistan. He observes that very little has been done to attract deposits from the public.

Criticizing the Islamic banking movement in Pakistan, Muhammad Anwar Asi in his article[29] *Towards Islamic banking system, by fits and starts* says, "The movement for Islamisation gets a big boost when staunch religious elements are in ascendancy. This happened during partition of the country when the urge to adopt Islamic way of life was still strong. General Zia-ul-Haq got involved with the process in view of the strength of 1977 Nizam-e-Mustafa movement. In the recent years, the matter came to prominence due to rising fundamentalism in the country. On the other hand, only lip service is considered sufficient and the issue is put on the back burner when religious elements slow their efforts to press the point and push their agenda".

Siddiqi, in this regard, opines that the problems of Islamic finance has only compounded when politicians of the country, riding high on the emotions of the public, have used this issue as the springboard for their power. The moment they succeeded the issue reached at the backburner. This has resulted in highly polluting the environment of the Islamic banking, commitment of the practitioners, frustration of the public and enthusiasm of the Islamic economists. Professor Siddiqi voicing his concern of the politicization of Islamization remarks that "Nation states tend to use everything, including religion in general and Islamic finance in particular, as instruments of national policy for promoting their strategic interests and hidden agendas. In case of authoritarian regimes, Islamic finance has often been used as a tool for consolidation of authority and for ensuring political legitimacy. Priorities dictated by economics have been forsaken in favor of those dictated by political expediency".[30]

Conclusion and Suggestions:

Islamic banks have been facing a number of problems which can be evaluated on various grounds. Some of the problems faced by Islamic banks stem from the nature of their businesses. Another kinds of problems can be evaluated from the point of the view of the treatment Islamic banks receive from various governments, Muslims as well as non-Muslims. A set of problems is specifically associated with the institutions concerned. Several problems faced by the Islamic banks have been overcome by their past experience while new problems are still hindering the performance of Islamic banks at various stages. Some of them are related to their internal structure, which has grown

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[28] Khan, M. Fahim, 'Islamic Banking as Practiced now in the World" in Ahmad Ziauddin *et al* (ed.), *Money and Banking in Islam*, Institute of Policy Studies, Islamabad, Pakistan, 1983.
[29] *www.brecorder.com*, 2002.
[30] Siddiqi, M. N., *Towards a Grass-Roots Based Islamic Finance for all*, Keynote Addressed at the 8th Annual International Conference on Lariba Islamic Banking, Los Angeles, 2001.

unplanned and instantaneous to the demand of the community. Some of the inherent theoretical contradictions still haunt the business of Islamic banks. Early models of Islamic banks, which were supposed for financial intermediations only, has taken precedence by the Islamic banks engaging themselves in the actual business about which Professor Siddiqi has rightly mentioned, “All this (*Islamic banking trading practices*) keeps Islamic banks focused on doing what they are not equipped to do-real industrial or agricultural production, trade, commerce, etc. It also keeps them away from what they would be able to do as financial institutions”.[31]

Since Islamic banks had to largely concentrate on actual business they have not yet been successful in devising an interest-free mechanism to place their funds on a short-term basis. Because of the same they are facing problem in financing consumer loans and government deficits. Second, the risk involved in profit sharing seems to be so high that almost all of the Islamic banks have resorted to those techniques of financing which bring them a fixed assured return. As a result, there is a lot of genuine criticism that these banks have not abolished interest but they have, in fact, only changed the nomenclature of their transactions. Third, the Islamic banks do not have the legal support of the Central Banks, which seldom have the necessary expertise and trained manpower to appraise, monitor, evaluate and audit the projects that are required to finance. Various issues are yet to be resolved before Islamic banks could really expand their arms outside their small religious clientele. To penetrate the masses Islamic banks need to be more professional and service oriented besides maintaining their religious identity, which at present is diluted because of their certain dubious practices under the guise of *Shariah*. Islamic banks also need to devise *Shariah* compatible instruments, which would help them, finance consumption and the government that has not been possible in the past without indulging in wary practices.

Islamic banks in different countries are working under different format. In some countries they are registered as investment companies while in other they are working as non-banks, still in some other countries they are working as cooperatives, merchant banks, special purpose banks etc. This has rendered the supervisor confused about the actual nature of Islamic banks. This is not a healthy sign for Islamic banks; in whatever country they operate it is the responsibility of Islamic banks to convey their supervisor (Central Bank or any other supervisory authority) about the actual nature of their business practices. This will enhance the trust of the supervisor, bring transparency in their operations and thus lead to increase the acceptance and confidence of Islamic banks among the general public.

While summing up, the problems faced by Islamic banks, it would be worth to quote one of the senior most Islamic economists, who stressed to express that “the climates under which Islamic banks are operating (domestic and external) is anything but congenial. The moral fabric of the society is weak. The legal framework is antagonistic. The tax system is partial towards the interest system and almost inimical to a profit sharing system. The state of

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[31] Siddiqi, M.N., ‘Islamic Banks: Concept, Percept and Prospects’, *Review of Islamic Economics*, No. 9, Islamic Foundation, U.K., 2000, p. 30.

competition between the Islamic and traditional banking system is such that most of the odds are against the Islamic system”.[32]

To help the cause of Islamic banking a country should have a developed financial market where innovations could be undertaken without much susceptibility to the system. The country must not be corrupt which is the basic qualification of becoming Islamic and people of the country must be educated enough along with commitment towards the cause. If one analyzes the above prerequisite for developing a case for Islamic banking unfortunately none of the Muslim country would qualify. In some countries people are highly committed but they lack the requisite expertise and their leaders are highly corrupt.[33] In many of the Middle Eastern countries people are educated, not as corrupt but they lack commitment, moreover, they have not been successful in developing their own financial market beyond a certain level as they mostly have carried their financial businesses in the Western countries.

One should not ignore that expectations from Islamic banking were very high in the beginning which could not be materialized fully, nevertheless, if one compares the first thirty years of Islamic banking experiences which are not as discouraging as the 1st hundred years of conventional banking when banking failures was a not an uncommon feature. Even today the number of bank failures in United States alone in a single year is more than the total failures of Islamic banking combined together for many years.[34]

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[32] Ahmad, Khurshid, ‘Islamic Finance and Banking: The Challenges and Prospects’, *Review of Islamic Economics*, No. 9, The Islamic Foundation, U.K., 2000, p.78.

[33] Pakistan occupies high rank among the top most corrupt countries in the world. A corruption Index prepared by Lambsdroff having scores between zero for most corrupt to ten for most clean shows the real picture of many Muslim countries including Pakistan, which obtained 1.00 in the index. In the same index Iran’s score was 1.89. For detail see; John, G. Lambsdroff, ‘Empirical Investigations of Bribery in International Trade’, *The European Journal of Development Research*, Vol. 10, No. 1, June 1998.

[34] Following the Great Depression and stock market crash of 1929, over 9,000 banks failed in the United States. At the end of 1990, there were approximately 900 out of 41,000 thrifts which collapsed costing the insurer US $ 300 billion and the taxpayer US $150 billion [Benston and Kaufman (1997)]. Bank failures which averaged six (mostly small banks) per year from 1946 to 1980, also exponentially, averaging 104 per year during 1980s [Gorton and Rosen (1995)]. All quoted by D. Ajit, ‘*A Case for Risk Based Deposit Insurance System in India’*, http://rbi.org.in. September 30, 1998. The cost of Savings and Loan crisis alone in United States in the 1980s and early 1990s are estimated to the tune of the size of the Islamic banking industry as a whole i.e. around US $150 billion.