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Some Issues to Consider when Regulating Islamic Banking Business in Secular Countries

Agnélio M. P. Chicava Pita[1]

Abstract

This paper aimed to identify some of the main issues that secular regulators should consider when regulating Islamic banking in their jurisdictions. Focused on experiences of four secular states, the analysis was sustained on the fact of regulatory framework of secular jurisdictions can not make reference to religious issues or even to *Shari´ah*law and Islamic banking has been growing in secular jurisdictions, creating challenges to secular regulators in facilitating innovation and avoiding unnecessary barriers for Islamic banking entry and expansion. It was concludedamong others that (i) to accommodate Islamic banking activities secular regulators need to reform prudential regulations (*ex-ant* factors) to give the same treatment Islamic banks and conventional banks, and (ii) secular regulators should develop a specific infrastructure for Islamic banking (*ex-post* factors) or creating them with particularities of Islamic banking or even let Islamic banks operate within the existing conventional infrastructure.It was also concluded that the reactive approach is the best for secular regulators.

Keywords: Islamic banking, regulatory framework, secular regulators, reactive approach

1. Introduction

Last international financial crisis has shown that conventional banking system has fragilities due to issues such as speculation, financial engineering, excessive use of derivatives and others.

[1] MSc. in Banking, the Stock Market and Finance – ESERP Business School, Post Graduate in Islamic Banking and Insurance – Islamic Banking and Insurance Institute. Associate Member of the International Institute of Public Relations, Management and Business (IERP) and Associate Fellow of the Institute of Islamic Banking and Insurance "AFIIBI". E-mail: agnelio.pita@bancomoc.mz, Telephone: +258845481376.

Factors related to Islamic banking business models helped contain the adverse impact of global financial crisis on profitability in 2008 (Hasan and Dridi, 2010).

Islamic finance is known by its characteristics linked to *Sharia* compliance.The fairness of Islamic economic model is reflected in the requirement that everyone involved in a transaction makes informed decisions and is not misled (FSA, 2007). Some notable characteristics include avoidance of *riba*, interest-based lending or usury, and *gharar*, speculation or uncertainty. It also has a special focus on *halal*, or religiously permissible activity as well as other ethical and religious goals (Hardy, 2012).

One important principle of Islamic commercial jurisprudence is contractual certainty. Some principles and rules are based on a clear and explicit ruling of *Shari´ah*, others are derived from *Shari´ah* scholars interpretation and understanding of the law (*fiqh*) (FSA, 2007).

Islamic states regulate their banking systems according to the Islamic law of *Shari´ah*. Secular states[2] from their constitution do not have to connect or even mention religious issues in their banking law. In pursuing financial stability and to increase the financial inclusion, secular states have been increasingly recognizing Islamic banking as an alternative or complementary banking model. On the other hand, Islamic banks faces a potential conflict of laws when have to comply with both, conventional banking regulation and Islamic bank regulations.

There are five models of Islamic banking regulation: (i) Reactive; (ii) Passive; (iii) Minimalist; (iv) Pro-Active and (v) Interventionist (Hasan, 2010).

The growth of Islamic banks brings new regulatory challenges. When regulating Islamic banking secular regulators faces challenges to treat at same level Islamic banks and conventional banks.

Considering that there are differences in *Shari´ah* scholars opinions, is it possible for secular regulators to create a fair regulatory framework for Islamic banks?Which elements secular regulators should consider when regulating Islamic banking?

[2]One that is neutral regarding religious doctrine, one that does not claim or pretend to enforce *Shari´ah* (An-Na´im, 2008).

It is relevant to identify the main issues that secular regulators should include when regulating Islamic banking because this kind of banking is growing around the world and secular regulators faces challenges in facilitating innovation and avoiding unnecessary barriers for Islamic banking entry and expansion (FSA, 2007).

This paper aims to identify some of the main issues that secular regulators should consider when regulating Islamic banking in their jurisdictions.

To achieve the aim it explores experiences of four secular regulators – UK, Turkey, Singapore and US and is structured into four sections, namely: (i) Introduction; (ii) Main Characteristics and Regulation Models of Islamic Banking;(iii) Some Issues to Consider in Regulation of Islamic Banking in Secular States; (iv) Conclusions.

2. Main Characteristics and Regulation Models of Islamic Banking

2.1. Main Characteristics of Islamic Banking and Finance

According to Hardy(2012), some of the notable characteristics of Islamicfinance include its avoidance of *riba*, interest-based lending or usury, and *gharar*, speculation or uncertainty. It also has a special focus on *halal*, or religiously permissible activity as well as other ethical and religious goals.

Most of the Islamic products underlying contracts differ from their conventional equivalents. For instance, *murabaha*, sale-based instrument similar to a conventional loan, involves the purchase of an asset by an Islamic bank and its sale to the client at a cost plus a declared profit, to keep with Islamic jurisprudence (*fiqh*) (Hardy, 2012). Conventional banks owning real estate other their own buildings may violate banking rules (Di-Mauro et al., 2013).

Islamic banks do not charge interest but share risks and profits or losses with their clients.

All the economic and financial transactions in which a Muslim participates or intermediates the application of money must be productive, this is to be backed by tangible assets.

There are no deposits in Islamic banking similar to conventional banks but profit-sharing accounts, special current accounts and participation accounts (Küçük et al., n.d.).

If Islamic financial products are structured in a way that provides interest-free tranches without direct reference to religion, there appears to be no conflict – although the line between interpretations of state law and religious law becomes less clear (Hardy, 2012).

2.2. Models of Islamic Banking Regulation

Hasan (2010), considers that existing regulatory framework on Islamic finance in different jurisdictions demonstrates that there are diverse practices and models of *Shari´ah* governance and five approaches, namely:

(i) Reactive –more prevalent in non-Islamic countries. Islamic banking licenses are issue but authority is silent upon the *Shari´ah* governance framework. There is no specific legislation governing Islamic financial institutions. Regulators only react if there is any significant issue. Islamic financial institutions are required to comply with existing regulations like any other conventional bank;
(ii) Passive – exclusive to Saudi Arabia. Islamic financial institutions are treated equal to their conventional parts;
(iii) Minimalist – applied mainly in GCC[3] countries with exception of Oman and Saudi Arabia. Allows slight intervention of regulatory authorities which expect Islamic financial institutions to have proper *Shari´ah* governance system but prefers the market to develop its own;
(iv) Pro-Active – adopted by Malaysia authority and is based on regulatory-based approach in strengthening *Shari´ah* governance framework; and
(v) Interventionist– is unique to *Shari´ah* governance in Pakistan. Allows third party institution to make decision on *Shari´ah* matters pertaining Islamic finance. The *Shari´ah* Federal Court is the highest authority in matters involving Islamic finance.

[3] Gulf Co-operation Council.

3. Some Issues to Consider When Regulating Islamic Banking Business

For Solé (2007), in order for Islamic banking to be successfully introduced into a conventional system, four important areas that practitioners need to appreciate are: (i) compliance with *Shari´ah*; (ii) segregation of Islamic and conventional funds; (iii) accounting standards; and (iv) awareness campaigns.

This paper argues that the key issues of the regulatory reforms that secular regulators needs to make in order to create a favorable regulatory framework to give the same treatment to Islamic banks and conventional banksare:

a) prudential regulation - i) similar requirements, ii) deposit definition; iii) reserve requirement, iv) segregation of funds, v) accounting and auditing standards, vi) awareness campaigns, vii) tax reform and viii) dispute resolution; and
b) infrastructures for Islamic bank - i) lender of last resort function, ii) Islamic interbank money market, iii) deposit insurance "*takaful*", iv) deposits with central banks and v) open market operations.

3.1. Prudential Regulation Standards for Islamic Banks

To Buksh (2006), because of the particular nature of operations of Islamic banks, it has different control and supervisory requirements and should be treated on a different footing that they apply to the interest based banks.
I spite of the above consideration most of the authors considers that there should have similar treatment of Islamic banks and conventional banks. The following issues are those that secular banking regulators should consider before (ex-ant) licensing Islamic banks.

3.1.1. Similar Requirements for Islamic Banks and Conventional

Regulators should include in the regulatory framework provisions to accommodate Islamic financial transactions and products, providing them with regards to taxation and the availability of substitute products that enable banks to meet regulatory requirements without disadvantage them.

Establishing a separate regulatory framework for Islamic banks is costly and would waste valuable resources because many areas are already covered by conventional (current) framework. (Suleman, 2011).

With regards to most regulatory areas, Islamic banks and conventional banks should and must be held to the same requirements. The only difference is the issues surrounding the receipt and payment of interest (Suleman, 2011).

Banking authorities from Secular states can not promote Islamic finance, or any other particular kind of finance (FSA, 2007). For instance, all financial institutions authorized by FSA and operating in the UK, or seeking to do so, are subject to the same standards (FSA, 2007; Hasan, 2010).

In US, the relevant regulation on banking is currently similar for all banks wanting to operate (FSA, 2013).

The Monetary Authority of Singapore (MAS) has adopted the same regulatory approach. When it comes to Islamic banking products MAS´ approach is to look through the form of the product to assess its economic substance and risks involved. Islamic banks products which are similar in economic substance and risks to conventional products are given the same regulatory treatment as their conventional equivalents (Suleman, 2011).

This approach is sustained by Solé (2007) with much four arguments, analyzing features of Islamic banks that warrant prudential regulation to a similar degree as conventional banks:

a) Moral hazard considerations – Islamic banks can pass a substantial part of the investment losses onto depositors, banks could potentially be induced to undertake riskier projects than if had to guarantee all depositors, as in conventional banks.
   Further more, investment depositors require also greater guarantees than company shareholders do, due to (i) the highly leverage nature of Islamic banks owning to the presence of demand deposits, which may induce banks to take on excessive risks, and (ii) the fact that investment depositors lack voting rights and cannot influence bank´s strategies.

b) Safeguarding of interests of demand depositors –due to the fact that risks demand depositors in Islamic banks facesare the same as demand deposit in conventional banks and thus should result in the same level of protection.
c) Systemic considerations – failure of a bank could result in the public´s loss of confidence in the stability of the banking system as a whole.
d) *Shari´ah* compliance – supervisors must have an understanding of weather Islamic bank´s activities are compatible with *Shari´ah*(Solé, 2007). The role of supervisor is not only to guarantee financial stability, but also to foster an environment where Islamic banking can offer a suitable response to customers demand for Islamic products without give regulatory advantages but rather a level playing field should be provided. It is likely that in the initial stages of the process, some Islamic transactions will fall into legal voids and thus may not be permitted by the existing legal framework, or may be viewed with reticence by the general public. As advised to secular states, this constrain should prevail because it is not advised to establish a *Shari´ah* board in central bank or at national level. As proposed to Hasan (2010), Islamic banks should admit interdisciplinary financial experts in *Shari´ah* boards to enable solid and concrete *Shari´ah* rulings.

It is important to note that supervisors will have to be familiar with application of the IFSB standards for Islamic banks (Solé, 2007). FSA has identified three main areas of potential difficulty which are common to Islamic applications: the regulatory definition of products; the role of *Shari´ah* scholars, and financial promotions (FSA, 2007).

i) Regulatory definition of products – the structure of Islamic products is based on a set of contracts acceptable under *Shari´ah*. The underlying structure may be significantly different. This means that the definition of these products may not be the same as conventional equivalents. This has two important implications for applicants. First, Islamic banks need to be sure they apply for the correct scope of permission for the regulated activities they wish to undertake.

Secondly, the regulatory definition is relevant in determining the framework in which products can be sold. If a product falls outside the regulatory frameworks there may be restrictions to who the product can bee sold to (FSA, 2007).

ii) Role of *Shari´ah* Scholars – Due to scarcity of *Shari´ah* advisors, issues of confidentiality and potential conflict of interest, the HM Treasury[4] recommends standardization of products and practices of Islamic finance services. It can be used standards of AAOIFI[5], FSB[6] and IIFM[7]. As regard to the *Shari´ah* governance, there is no legal requirement for the Islamic financial institution to establish the *Shari´ah* board (Hasan 2010). UK authorities nevertheless do concern on the issue of *Shari´ah* governance, been the major concern whether the *Shari´ah* board has an executive or directorial role in the Islamic financial institutions. Different Islamic banks often share the same scholars. This has the beneficial side-effect that it promotes consistency across the services and products offered by these institutions (Solé, 2007).

The absence of a comprehensive set of regulatory framework on *Shari´ah* governance may cause problems to the development of Islamic finance (Hasan 2010: 109). However, there are differences of various *fatwa* ruling among the *Shari´ah* boards (diversity of interpretation of *Shari´ah*) that may affect the Islamic finance image especially when international entities establish their Islamic banks in different jurisdiction (Hasan 2010).

iii) Financial promotions – more relevant on retail side. All advertising should be clear, fair, and not misleading. There is a need for promotion of Islamic financial products to include the risks as well as benefiting, because Islamic products are still new, their structure differs from more conventional products, by necessity those who will wish to use them may be relatively inexperienced in financial services (FSA, 2007).

3.1.2. Deposits Definition

According to Küçük et al.,(n.d.), in Turkey participation banks[8] are authorized to perform all banking activities in traditional sense except collecting deposits. Instead of deposits, participation banks are authorized to collect funds under "special current accounts" and "participation accounts". Under the banking act participation banks are permitted to engage in profit-and-loss sharing partnership or joint investment operations. Also they may conduct *mudarabah* and *musharakah* transactions.

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[4]UK government´s economic and finance ministry.
[5]Accounting and Auditing Organization for Islamic Finance Institutions.
[6]Financial Service Board.
[7]International Islamic Financial Market.
[8]Denomination adopted for Islamic banks in Turkey.

In Islamic finance there are profit-sharing accounts rather than deposit accounts that promise an interest rate of return. In Islamic finance when premium/ profit are set generally it does not float during the term of a loan or it does not even change in case of late or non-payment.

In US, Islamic financial institutions have avoided deposit-taking operations. Many Islamic financial institutions have opted to operate as leasing companies or mortgage brokers. US regulators have raised the concern that banks offering Islamic financial products like *murabahah* may be violating rules prohibiting them to owning real estate other their own buildings and other real estate owned (Di-Mauro et al., 2013).

3.1.3. Reserve Requirements

To set out reserve requirement for Islamic banks two issues need to be addressed: (i) the base amount on which the reserve should be calculated – *mudarabah* deposit should be excluded from the calculation of reserve requirements because the structure of *mudarabah* deposit essentially implies that the client becomes a partner to the bank and shares in its profit and loss; and (ii) holding of liquid assets such as *sukuk* bonds - all liquid assets are interest bearing, so Islamic banks are not allowed to benefit from the returns earned when holding them (Suleman, 2011).

The *Mudarabah* deposits of Islamic banks are similar to banks´ equity and therefore, they should be exempted from legal reserve requirements.The rate of legal reserves imposed on deposits with Islamic banks may apply only to demand deposits (Buksh, 2006).

When Islamic banks are not able to join the reserve scheme and open market operations,this means that Islamic banks are confronted with a fundamental obstacle to participating in banking activity (Di Mauro et al., 2013).

To pursuing exemption from set up reserve accounts is not a suitable solution for Islamic banks (Di Mauro et al., 2013).

Alternatively banks can hold their reserve accounts indirectly through another intermediary.

This possibility is confined to credit institutions that entrust part of their management (e.g. treasury management) to another intermediary, for example, an association of small saving banks or cooperatives banks. This is actually the preferred solution of several small banks. Otherwise, the only other possibility left to Islamic banks would be to indirectly comply with minimum reserve requirements and to somehow give up the remuneration associated with reserve account (Di Mauro et al., 2013).

3.1.4. Segregation of Funds

Segregation of funds – take all the necessary precautions to ensure that Islamic funds do not become mixed with other funds that may be involved with *riba*, *gharar*, or *haram* activities. So, conventional banks wishing to offer Islamic products must guarantee and publicize that the funds devoted to conventional activities will not be mixed with those destined for Islamic activities. In operational term, this requires that banks establish different capital funds, accounts and reporting systems for each type of activity (Solé, 2007).

3.1.5. Accounting and Auditing Standards

In jurisdictions where Islamic finance is still nascent, regulators and financial institutions should familiarize themselves with the standards set by AAOIFI (Solé, 2007).

3.1.6. Awareness Campaigns

Depositors must be well informed at least in the initial stage, of all the risks they run when entering into new contracts. Regulators should also require institutions offering Islamic products to actively pursue awareness campaigns (Solé, 2007).

3.1.7. Tax Reform

To introduce tax and legislative changes specifically designed to remove obstacles to the development of Islamic finance. Prevent double payments of taxeson Islamic mortgages, both on purchase of the property by the bank and on the transfer of the property by the bank to the customer at the end of the mortgage term (FSA, 2007).

There is also some monetary policy which is considered to accelerate the development of Islamic banking business. Singapore waived the imposition of double stamp duties in real estate transactions or in income earned from Islamic bonds. Also, Singapore waived in income taxes and taxes applicable for goods/ services. It was ensured that Islamic financial products do not burden more taxes due to the nature of their structure (Triyanta, 2011; Suleman 2011).

Reforms should include the incorporation into the legislation amends to eliminate double tax on goods which are purchased by banks on behalf of the customer and then resold to the customer, transfer duty is paid twice on property which is purchased by the bank and sold to the customer over a period of time. Tax legislation should be amended to recognize the bank as the facilitator of the transaction as opposed to a participant in the transaction. Second, it should be given the same treatment to *mudarabah* deposits and interest earning investment accounts (Suleman, 2011).

3.1.8. Dispute Resolutions

Islamic finance cases fall under jurisdiction of non-*Shari´ah* court in many countries including UK. Questions in respect to *Shari´ah* governance can be raised, such as judge ability to decide Islamic finance cases and to what extent the judge's keenness to refer Islamic finance disputes to the*Shari´ah* board for deliberation (Hasan, 2010).

According to Schmith(n.d.), in many cases large multinational companies have chosen common or civil law to resolve their Islamic finance contracts. In other cases, the development of international standards from AAOIFI, IFSB offers a solution.

3.2. Infrastructures for Islamic Banking

Well-functioning banking system requires a certain infrastructure to guarantee the efficient and safest allocation of funds, make operations more reliable and cost-efficient (Solé, 2007).However, due to existence of the infrastructures of the conventional banks, is possible to licenseIslamic banks without Islamic banking infrastructures while deciding the best option according to the development of the market.

The following Islamic banking infrastructure are those ones secular regulators should consider when Islamic banks are operating (ex-post) because Islamic banks can start operations while these infrastructures needs to be adjusted according or even can use the existing conventional infrastructures without receiving or paying interest: i) Lender of Last Resort function; ii) Islamic Interbank Money Market; iii) Deposit Insurance "Takaful"; iv) Deposit with Central Bank; and v) Open Market Operations.

3.2.1. Lender of Last Resort Function

Islamic banks can not benefit from the facility of the central bank because funds are usually provided on the basis of interest (Buksh, 2006).This would entail them borrowing money and having to pay interest(Suleman, 2011).

For Islamic banks to benefit, central bank should make legislative reforms on: i) *mudarabah* basis - there is risk that central bank incur a loss according to the proportion of its capital; ii) purchase and lease back, (iii) *murabaha* contracts –would require central bank to engage in non-banking activities. (Suleman, 2011).

3.2.2. Islamic Interbank Money Market

Islamic institutions face greater difficulties in managing their liquidity as they do not have access to the same wide range of financial instruments as conventional institutions(Di-Mauro et al., 2013).

This dearth of financial instruments makes for less efficient liquidity management, as Islamic banks have to hold more cash than is strictly necessary to meet liquidity thresholds, thereby reducing their profitability, all of which may even impact the financial sector in which they operate (Di-Mauro et al., 2013; Solé, 2007). An alternative market design is required (Solé, 2007).

However, as it happens for a number of years Islamic banks in conventional systems have operated with no access to tradable short-term instruments (Solé, 2007).

Islamic banks can pool funds together under the supervision of the central bank to help each other in times of need. This money can be invested in *Shari´ah* compliant liquid assets until they are required. Another means of inter-bank lending is through *mudarabah* deposits. A surplus bank can invest money in a deficit bank for a period of time.

The profit earned on this money can be split according to an agreed upon ratio between the banks. In this way banks with surplus cash will be able to invest their cash for shorter periods and earn a return while deficit banks can meet their short term liquidity needs. A third way banks can engage in inter-bank funding is through *murabaha* transactions – example, Monetary Authority of Singapore (MAS). A surplus bank can purchase and supply a deficit bank with a particular commodity at a profit. The payment for this commodity can be done on a deferred basis. The deficit bank can then sell this commodity for cash and the proceeds form there will be available for the deficit banks use until it becomes due to the surplus bank. To lower its cost the deficit bank may also sell the commodity at a profit (Suleman, 2011).

To solve liquidity, commodity *murabaha* transactions should be structured to have almost exactly the same effect in terms of liquidity as the inter-bank deposits of conventional banks (FSA, 2007).

3.2.3. Deposit Insurance "Takaful"

The International Association of Deposit Insurers (IADI) includes the following important principles for depository insurance: (i) the coverage of the Deposit *Takaful*;(ii) the limit and scope of Deposit *Takaful* account coverage; (iii) the funding of Deposit *Takaful* coverage;(iv) the investment of Deposit *Takaful* funds; and (v) the resolution process for failed banks (Schmith, n.d.).

Most Islamic banks are not presently covered by a Deposit *Takaful* plan. Many of these banks, however, are eligible for coverage within their general deposit insurance programs. This raises a potential conflict with *Sharia´ah* compliance, as the funds of the deposit insurance fund may be invested in interest-bearing assets(Solé, 2007).

The proper of action is to establish an explicitly *Shari´ah* compliant Deposit *Takaful*. Example Turkey and Malaysia established a deposit protection scheme insuring conventional and Islamic deposit alike.

The Turkish banking law from 2006created a Savings Deposit Insurance fund for participation banks covering accounts of up to 50 thousand Turkish Liras.Additional uninsured deposits became eligible for protection under Turkey´s bankruptcy laws (Hardy, 2012).

The premiums collected from Islamic deposits will be kept, and invested, separately form the premiums from conventional deposits (Solé, 2007).

Countries where Islamic banks are emerging should consider setting up protection schemes (Deposit *Takaful*) for Islamic depositors, designed in a way that complies with *Shari´ah*. Particularly in low-income countries, a well-designed Deposit *Takaful* would encourage participation in banking system and reduce the fraction of the population that is under-banked (Solé, 2007).

Covering *mudarabah*deposits may generate moral hazard implications, as well as violate the risk-sharing nature of the *mudarabah* deposits, where it is intended that the depositor(*mudarib*) bears the risk of losses. On the other hand, if most deposits are *mudarabah* deposits, then not including them under the coverage would limit the impact of the deposit *takaful* in increasing the stability of, and the public´s confidence in the banking system (Solé, 2007).

3.2.4. Deposits with Central Bank

Central Banks usually pay interest on deposits conventional banks are required to keep with them but which Islamic banks cannot accept. An alternative is needed to ensure that Islamic banks get fair return on their deposits with central banks (Buksh, 2006).

An adequate solution could depend on existence of Islamic market for securities.

3.2.5. Open Market Operations

Islamic banks are not able to participate in open market operations because of the interest-based nature of the securities bought and sold.

Islamic banks are constrained by the fact that financial assets that could be liquidated quickly are not available to them. This introduces some rigidity in the asset structure of Islamic banks (Buksh, 2006).

This is also an infrastructure that needs a specific design to ensure fairness to Islamic banks.

4. Conclusions

This paperargued that (i) to accommodate Islamic banking secular regulators needs to reform prudential regulations to give the same treatment Islamic banks and conventional banks, and (ii) secular regulators should develop a specific infrastructure for Islamic banking or reforming the regulation to accommodate Islamic banking or even let them operating within the existing conventional infrastructure giving up the remuneration associated.

The reactive approach is the best for secular regulators as Islamic banks are required to comply with existing regulations also applied to conventional banks and the regulator is silence upon *Shari´ah* governance framework though concerns on the role of *Shari´ah* boards should be considered.

It should be adequate to reform the banking law to include provisions to accommodate features and "special" features of Islamic banks such as profit-sharing accounts, *mudarabah* deposits, incidence base of reserve requirements, different capital funds and reporting system, require awareness campaigns, eliminate double taxes (and recognize the bank as facilitator of the transaction) and clarify dispute resolutions.

The prudential requirements for Islamic banks and conventional banks should give the same level of treatment to both, creating no obstacle nor given special favors (UK policy). It is important for secular banking authorities to apply the same degree of supervision to Islamic banks and conventional banks, giving a clear regulatory framework which is flexible enough to adapt to changes in the market.

Islamic Interbank Money Market seems to be the infrastructure with alternative options to accommodate Islamic banking, while Deposit *Takaful*raises moral hazard implications when covering *mudarabah* deposits due to risks of losses bearing by depositors.

The authorities should ensure that Islamic principles are well understood by practitioners, transactions fall under prudential regulations, and customers of Islamic institutions are regulatory protected at the same level as those of conventional.

It is also important to study experiences from Islamic countries and mixed jurisdictions, but the best experience to secular regulators are those one from other secular regulators. This is due to the fact that secular banking authorities do not follow the *Shari´ah* governance approaches since they are not religious regulators.

The ideal scenario is to make all the necessary legal regulatory reforms. To adjust the legal framework of secular states to the Islamic banking principles is a long process. So, in order to not limit the innovation secular regulators should address prudential regulation standards, *ex-ant* factors, such as reserve requirements, segregation of funds, tax reforms. Infrastructures for Islamic banks, *ex-post* factors, can be considered while Islamic banking is operating or even they can operate on the existing infrastructure.

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