**Rise of Islamic Finance & its practical application.**

**Summary:**

In the lecture given by Prof. Mervyn K Lewis on the topic “Rise of Islamic Finance & its practical application” following facts have been discussed.

* The global size of Islamic finance industry is 1.13 trillion dollars and average growth rate is 20% p.a.
* Malaysia has grown to be the 3rd largest market in the global Islamic finance industry, and it is worlds largest issuer of Islamic bonds (Sukuk).
* Islamic Banks hold more capital and earn more profit than conventional banks.
* Islamic banks have performed better than conventional banks during global financial crisis.
* Islamic assets were not caught with the exposure to toxic assets that infected conventional banks.
* The products offered by Islamic Banks are relatively conservative.
* It is based on the principle ‘justice in exchange’.
* Islamic Finance avoid using interest (riba).
* Islamic Bank works on the principle of ‘Profit and Loss sharing’.
* Major modes of financing in these banks are credit financing(murabaha) , leasing operation(ijarah) and Islamic bonds(sukuk).
* In credit financing banks purchase assets and sells to clients with markup as profit which is shared with investors.
* To reduce risk associated with sale of commodity banks appoint clients as bank agent.
* In leasing operation (ijarah) banks charge fix lease from lessee which is already appointed as bank agent to reduce risk.
* Banks issues Islamic bond (sukuk) to generate capital.
* High leverage and excessive debt are accepted as the main cause of GFC.

**My Observations:**

Islamic finance industry is growing at a rapid rate of 20% and has a remarkable presence in middle eastern countries and other countries like Malaysia where half of its customers are non-muslims. Involvement of people from non-muslim background has shown that Islamic banking practices are accepted by people from other religions and are not just limited to Muslim community. Islamic banks are comparatively small than conventional banks. But are more profitable than conventional banks. The principle followed by Islamic banks make them resilient and shock absorber at the time of recession. The chances of fraud in these type of banking services reduces as the bank keeps a proper agreement between the customer and the bank. The basic principle of Islamic Bank is “No Risk No Gain”.