

Discuss the presence of islamic banking in palestine

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THE PRESENCE OF ISLAMIC BANKING IN PALESTINE By Location The presence of Islamic banking in Palestine Over the past decade, Islamic banking has grown in Palestine out of the need by businessmen to have banks that are compliant to the Islamic Shariyah law (Morris & Pinto 2013, p. 299). As at 2012, Palestine had three fully fledged Islamic banks meaning that they were now able to serve Muslims that had never accessed banking facilities because of this restriction. In essence, the existence of banking system within a region asserts that that same region has prospects of growth and opportunities for investment hence growing its economy. In line with tailoring products as per the needs of the targeted population, investors in Palestine sought to address the need of having a banking system that would be in line with Islamic laws and practices. The main that the Islamic law prohibits is that of money accruing interest, which is factor that dates back to the time of Prophet Muhammad (El Tiby 2010, p. 7).

The interest for Palestine to start Islamic banks began in 1990 when businessmen started to push for the idea. This process began by the Muslim businessmen establishing a Finance Company that was to operate on Islamic principles, because the Israeli authorities had refused to oblige to this request. The company was named the Beit Elmal Al Philisti that was licensed for operation on 22 February 1994. Presently, banks in Palestine are classified as either conventional or Islamic banks with 83 % being the percentage of the conventional banks while the rest are the Islamic banks in The region (Sabri 2009, p. 58). The Islamic banks operating in Palestine include the Palestine Islamic Bank, Islamic Arab Bank, Cairo Amman Bank and Al-Aqsa Islamic Bank that were established between 1995 and 1998

(Palestine Investment Fund 2014).

The main challenge that banks face is the fact that they have to compete in the same market as banks that were established more than 60 years ago such as the Arab Bank. However, this has not deterred these banks from making profits because they also provide investment opportunities that are attractive to the markets they target. Additionally, investment opportunities are scarce making competition between banks to be stiff and making it hard for new banks to penetrate this market (Gompert et al 2001, p. 121). Islamic banks, however, got into business based on them developing products such as Mudaraba, Musharaka, and Murabaha that provided new investment opportunities (Askari, Iqbal & Mirakhor 2011, n. p). The banks also had to devise new pricing so that they could attract profits based on the commission that they were to receive from transactions since money as per their principle cannot attract any interest in favor of the bank.

Another challenge that Islamic banks have while operating in Palestine is that they are guided by the Palestine Monetary Authority law and the Law of Jordan of 1966, which allows them to be on the same playing field as the conventional banks (Kassim 2000, p. 71). These laws fail to state the relationship that Islamic banks should have with monetary agencies making them to operate on vague grounds. Further, Islamic banks are heavily regulated by Islamic laws making it impossible for them to make use of marketing tools such as the marketing mix so as to attract more customers, which is a major advantage that conventional banks have over them.

Islamic banks continue to play a major role in the Palestine economy based on the restrictions that limit them from attaining the desired progress, but

the percentage of deposits made in these banks continue to increase at very rapid rate (Esposito 2004, p. 64). The Murabaha investments has proven most effective for these banks because it usually a lower risk percentage as compared to the other two investment products. Therefore, Islamic banks in Palestine should be allowed to market their products more in order for them to be able to compete effectively with other conventional banks.

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