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Islamic banking in a European Union context

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Abstract: The migration crisis of the 21th century and the high birth rate of the Muslim population already living in the European Union, also the increasingly close economic relationship with investors in the Middle East created strong market opportunities for Islamic banks within the European Union. Despite there are still member states where Islamic banking is unknown, in Western European countries with larger Muslim populations, the number of Islamic banks' branches and the „Islamic windows" of traditional banks are gradually thriving. Interpreting Islamic finance is not solely a matter of religion. The paper intends to draw up the most significant discrepancies between the conventional and Islamic finance with particular regard to such important factors as different interpretations of the concept of money, the assessment of interest, also the sharing of profit and loss between the bank and the client.
Keywords: European Union; migration; Islamic banking; conventional banking; differences.

Összefoglalás: A 21. századi migrációs válság, a már az Európai Unióban élő muszlim lakosság magas születési rátája, valamint a közel-keleti befektetőkkel való egyre szorosabb gazdasági kapcsolat erős piaci lehetőségeket teremtettek az iszlám bankok számára az Európai Unión belül. Annak ellenére, hogy még mindig vannak olyan tagállamok, ahol az iszlám bankszektor ismeretlen, a nagyobb muszlim lakossággal rendelkező nyugat-európai országokban fokozatosan növekszik az iszlám bankok fióktelepeinek és a hagyományos bankok „iszlám ablakainak" száma. Az iszlám pénzügyek értelmezése nem kizárólag vallási kérdés. A tanulmány a hagyományos és az iszlám pénzügyek közötti legjelentősebb eltéréseket kívánja felvázolni, különös tekintettel az olyan fontos tényezőkre, mint a pénz fogalmának eltérő értelmezése, a kamat megítélése, valamint a nyereség és veszteség bank és ügyfél közötti megosztása.

Kulcsszavak: Európai Unió; migráció; Iszlám banki szolgáltatások; hagyományos banki szolgáltatások; különbségek.

Introduction

The economic crisis has shaken the confidence of many in completely free markets and Western banks. While some see the solution as increasing public involvement, many see it as they believe in the Islamic banking system and its different regulations. The financial and the main losers of the real economic crisis are undoubtedly Western European and American financial institutions. It is important to recognize that Islamic finance is not solely a matter of religion. The differences between the conventional financial systems we are experienced with and an Islamic banking system should be looked at from an objective standpoint without any conditioning of a religious nature which could mar its introduction. The Osservatore Romano, the official newspaper of the Vatican State, pointed out, in 2009, the great opportunities that Islamic finance could offer to the Western world in crisis. The writing praised the banks of the Muslim world that rejects making money by money method. According to the article, "the Islamic financial system can contribute to the Western world's new rules. The then head of the Catholic Church, Pope Benedict XVI already warned when the financial crisis erupted: "The Qur'an should be read again. If our bankers, who are so hungry for money that only the greatest benefits float before their eyes, would have known only a little about the rules of Sharia, we would not keep here. „ [1]

Catastrophic events that began with the collapse of international financial markets in 2008 (by Lehman Brothers, one of the oldest, largest, and most symbolic in the world the bankruptcy of its most important financial institution has been the subject of intense public debate in the last few years. In the debate, they appeared rational and less rational, and also demagogic arguments about the right and wrong actions of the financial sector. In a sense, the time is ripe to raise the issue of ethics, as presumably moral issues (with the possible exception of warfare and human rights), which have never become the focus of the global debate. [2]

What is completely missing from the debate, however, is fundamental to the concept of „ethics" definition. What is ethics? What is right and what is wrong? From

[1] Totaro, L. (2009): "*Vatican Says Islamic Finance May Help Western Banks in Crisis*". http://www.bloomberg.com/apps/news?pid=newsarchive&sid=aOsOLE8uiNOg, /Accessed: 31 May 2020/

[2] Fleming, M. J.–Sarkar, A. (2014): "The Failure Resolution of Lehman Brothers". *FRBNY Economic Policy Review*.

[3] Alzalabani, A. –Nair, R. D. (2013): Financial Recession, Credit Crunch and Islamic Banks: A Case Study of Al Rajhi Bank in the Kingdom of Saudi Arabia. *Journal of Economics and Business.* Pp. 16–1.

an ethical point of view why professions such as bankers and merchants have emerged, and why are these professions flourishing even today despite recent difficulties? Based on the information available, whether we are in a position to judge the banking system and its beneficiaries – we are all to whom they have banking relationships – their actions as morally right or wrong? Is it possible to set a standard of moral behaviour to measure the ethical results of those actions and whether the results thus obtained can be used to determine the possible consequences? Also, who is eligible for such a yardstick to create and apply and judge the actions of others? And finally, what ethics, what ethical behaviour we can talk about financial institutions and related for their parties? We are almost as much a part of the global financial system as we are part of our society. Money and banking are essential and were created from human needs. Measuring, accumulating, and transferring value is essential for any human interaction, and this is just as true for the person who handles it appropriate institutional system.

The Islamic banking system, which emerged in the second half of the 20th century, is gaining ground as a new, stable, and alternative banking model in the areas of investment, lending, securities distribution and trading, and other new financial derivatives since the 2009 crisis. The first Islamic bank to be established on the European continent was Bosna Bank International (BBI), founded in 2000 and headquartered in Sarajevo, a major financial institution in the Balkans, yet the most successful Islamic bank in Europe since the founding of the Islamic Bank of Britain (IBB) in 2004. It is a financial institution that is extremely successful in a legal environment that is fundamentally foreign to the parent institution. Although after BREXIT (2020) we cannot officially state that London, as one of the world's Islamic financial centers, is located in the EU, it can be clearly stated that here, too, this banking service works successfully in the Western, conventional financial system. Financial services based on Islamic economics are one of the fastest growing financial sectors, with an annual growth rate of 10–12 percent over the last two decades and a capital of around £ 2.5 billion. The functioning of Islamic financial services in Europe requires a Muslim community that is large enough to provide a lasting consumer base. The emergence of Islamic financial and other products on the market has been enthusiastically accepted by some Western European countries, such as Britain, while others have been reluctant, such as Germany and France. Britain's position is rooted in the belief that Islamic-type funding means huge investments, consumption, and transnational markets. The relationship between the Islamic community, the Islamic bank, and the local business can be further illustrated by the example of Germany, where Al Baraka Turk, a Turkish subsidiary of the Al Baraka Banking Group, was the first in Europe to launch a digital Islamic banking service at Berlin-based Fintech Solaris Bank AG. In cooperation with this Sharia-compatible service, which includes non-banking services such as prayer reminders, is used by 5 million Muslims in Germany. [3]

If we consider the EU market, however, still we know that Islamic Finance is not as popular in Europe, as it should be. There may be several reasons for that: the Islamic financial institutions are not fully practicing Sharia rules, which is why a large number of Muslims are avoiding it; lack of information among non-Muslim clients; relatively higher fees, etc. This paper aims to outline the legal and economic issues of Islamic banking in the European Union.

Features of Islamic financial institutes (IFIs) compared to the conventional banking system

Under conventional system total risk is born by the bank and total reward belongs to it after servicing the depositors at fixed rate while under Islamic system risk and reward both are shared with depositors. Reward of depositors is linked with outcomes of investments made by IFIs. Under Islamic financial system only those IFIs are able to collect deposits which can establish trust in the eyes of masses hence leading to optimal performance by financial industry. Both Islamic and conventional banks are providing financing to productive channels for reward. The difference lies in financing agreements. Conventional banks offer loan for a fixed reward while IFIs cannot do that because they cannot charge interest based on the rules of Sharia. IFIs can charge profit on investments but not interest on loans. In conventional banking three types of loans are issued to clients including short term loans, overdrafts and long-term loans. Islamic banks cannot issue loans except interest free loans. IFIs can claim only the original receivable amount agreed in initial contract. Different options are lying with IFIs including to blacklist the defaulter for any further financing facility, to stipulate in the contract that in case of default all instalments will be due at once, to stipulate in the contract a penalty shall be imposed but the same shall not form income of IFIs rather it will go in charity.

Islamic financing is working within the Sharia framework following certain restrictions including following. First IFIs cannot provide finance for an activity which is prohibited by Sharia irrespective of its profitability and economic viability e.g. business of liquor, pork and pornography. Second IFIs cannot lend any amount in cash for interest however need is fulfilled either through supply of required asset or through profit and loss sharing. Consequently certain financial needs of some sections of the society are ignored in financing including personal loans and working capital requirements of not for profit organizations. Third under Islamic financial system when financing is provided under profit and loss sharing although profit can be shared as per agreement between the parties involved however loss must be shared according to capital contribution/ownership.

Islamic banking is not as foreign to business world as it is perceived by certain quarters. It is a business very much like conventional banking within certain restrictions imposed by Islamic law.

CONVENTIONAL BANK	ISLAMIC BANK
MONEY IS A COMMODITY ➔ IT CAN BE SOLD AT A PRICE HIGHER THAN ITS FACE VALUE /IT CAN ALSO BE RENTED OUT	MONEY IS NOT A COMMODITY ➔ IT CANNOT BE SOLD AT A PRICE HIGHER THAN ITS FACE VALUE / IT CANNIT BE RENTED OUT
TIME VALUE IS THE BASIS FOR CHARGING INTEREST ON CAPITAL	PROFIT ON TRADE OF GOODS OR CHARGING ON PROVIDING SERVICE IS THE BASIS FOR EARNING PROFIT
INTEREST IS CHARGED EVEN IN CASE THE ORGANIZATION SUFFERS LOSSES BY USING BANK"S FUNDS ➔ CLIENTS ARE NOT TREATED AS PARTNERS	PROFIT AND LOSS SHARING ➔ CLIENTS ARE TREATED AS PARTNERS: THE BANK WILL SHARE LOSSES BASED ON THE MODE OF FINANCE USED
ITS ACTIVITY LEADS TO INFLATION	TENDS TO CREATE LINK WITH THE REAL SECTORS OF THE ECONOMIC SYSTEM BY USING TRADE- RELATED ACTIVITIES ➔ MONEY IS LINKED WITH THE REAL ASSETS THEREFORE IT CONTRIBUTES DIRECTLY IN THE ECONOMIC DEVELOPMENT

Comparison table: characteristics of Islamic vs conventional banks (edited by the authors; based on: [4])

[4] Balázs, L.–Bezrati, R.–Falus, O. (2019): Operating principles of islamic banking In: András, I.–Rajcsányi-Molnár, M. (Eds.): *East West Cohesion III : Strategical study volumes.* Subotica: Čikoš Group.

Legal and economic issues

Legal background

The European Union is a legal order based upon a process of approximation of Member States' legal systems to pursue its objectives, as laid down in the Treaties and clarified by the jurisprudence of the Court of Justice. Therefore, any attempt to accommodate Sharia rules within the European framework must be based upon articles 2 and 3 of the Treaty on the European Union (hereafter, TEU). Art. 2 establishes that *„The Union is founded on the values of respect for human dignity, freedom, democracy, equality, the rule of law and respect for human rights, including the rights of persons belonging to minorities. These values are common to the Member States in a society in which pluralism, non-discrimination, tolerance, justice, solidarity, and equality between women and men prevail."*

Among the EU's objectives, Art. 3, § 3 of TEU provides for combatting discrimination and social exclusion, as well as establishing an internal market, defined as an area without internal frontiers in which the free movement of goods, persons, services, and capital is ensured by the provisions of the Treaties. The effective operation of the internal market and the construction of the European Union as a pluralistic and inclusive society depend also on the correct application of the principle of non-discrimination on grounds of religion or beliefs, as laid down in articles 10 and 19 (point 1) TFEU, framing the Sharia accommodation process in the EU-based framework for banking contracts *„In defining and implementing its policies and activities, the Union shall aim to combat discrimination based on sex, racial or ethnic origin, religion or belief, disability, age or sexual orientation." /Article 10/*

„1. Without prejudice to the other provisions of the Treaties and within the limits of the powers conferred by them upon the Union, the Council, acting unanimously by a special legislative procedure and after obtaining the consent of the European Parliament, may take appropriate action to combat discrimination based on sex, racial or ethnic origin, religion or belief, disability, age or sexual orientation." /Article 19 (ex Article 13 TEC)/

According to the principle of the direct effect of European law rules, any individual is entitled to invoke a European provision before a national or European court to ensure the application and effectiveness of EU law throughout the Member States. Given that Islamic banking is directly based on Sharia law, all Muslim believers have the right to use such banking services. Of course, there is no obstacle to non-Muslims opting for these instead of conventional financial services.

In the European legal framework, there is a general definition of "consumer" and "entrepreneur", but article 2 of the "Consumer Directive" (Directive 2011/83/EU of the European Parliament and of the Council of 25 October 2011 on consumer rights, amending Council Directive 93/13/EEC and Directive 1999/44/EC of the European Parliament and the Council and repealing Council Directive 85/577/EEC and

Directive 97/7/EC of the European Parliament and the Council) in force provides that a “consumer” is a “natural person” who, in contracts covered by this Directive, is acting for purposes which are outside his trade, business, craft or profession», while a “trader” is any natural person or any legal person, irrespective of whether privately or publicly owned, who is acting, including through any other person acting in his name or on his behalf, for purposes relating to his trade, business, craft or profession about contracts covered by this Directive:

“(1) ‘consumer’ means any natural person who, in contracts covered by this Directive, is acting for purposes which are outside his trade, business, craft or profession;

(2) ‘trader’ means any natural person or any legal person, irrespective of whether privately or publicly owned, who is acting, including through any other person acting in his name or on his behalf, for purposes relating to his trade, business, craft or profession in relation to contracts covered by this Directive”

On the opposite side of the contract, there is a bank. According to the European legal framework for credit institutions, these are legal entities with their head office and central administration in the same Member State, authorised to operate a banking business, or the Sharia-compliant credit institution may be a branch of a third-country bank. [5] The status of a legal person might raise some doubts according to classical Islamic law, which only provides for partnerships rather than limited liability companies. If a conventional bank is authorised to provide, among other things, Sharia-compliant products and services, it is supposed to set up an Islamic window, namely, a business line financially separate from the rest, however, it might also be an Islamic credit institution based within the European Union, either a branch of a third-country Sharia-compliant bank or an EU-based Islamic bank. In the latter case, it is a legal entity authorised to carry on banking business by the European banking framework, with its head office and central administration in a Member State. [6]

[5] Gimigliano, G. (2019): Banking contracts and Sharia rules within the European Union framework. *Open Review of Management, Banking and Finance.* URL: https://openreviewmbf.org/2019/05/02/banking-contracts-and-sharia-rules-within-the-european-union-framework/ / (Accessed: 8 August, 2022)

[6] Cooperman, A. –Hackett, C.–Schiller, A. (2017): Europe’s Growing Muslim Population. Muslims are projected to increase as a share of Europe’s population – even with no future migration. *Pew Research Center.*

[6] Cooperman, A. –Hackett, C.–Schiller, A. (2017): Europe's Growing Muslim Population. Muslims are projected to increase as a share of Europe's population – even with no future migration. *Pew Research Center.*

Increasing demand for Islamic banking services

In the last decade, the European Union became an attractive market for the expansion of Islamic banks due to their potential. In recent years, Europe has experienced a record influx of asylum seekers fleeing conflicts in Syria and other predominantly Muslim countries. Even if all migration into Europe were to immediately and permanently stop, the Muslim population of Europe still would be expected to rise from the current level of 4.9% to 7.4% by the year 2050. This is because the Muslim population is younger (13 years, on average) and has higher fertility (one child more per woman, on average) than other Europeans, mirroring a global pattern. [6]

Countries that have received relatively large numbers of Muslim refugees in recent years are projected to experience the biggest changes in the high migration scenario – the only one that projects these heavy refugee flows to continue. For example, Germany's population (6% Muslim in 2016) would be projected to be about 20% Muslim by 2050, and in Sweden 31% – even in case of a "zero migration" scenario. [6]

Given the tendency of the European Union, which is impoverished as a result of the sanctions that have led to the global energy crisis, to look to the wealthy Middle East for investment capital, the importance of Islamic banks will increase even more in the near future.

The potential Muslim clients can be divided into two segments: Muslim customers, who agree to pay, even higher prices, to benefit from services, which have a prominent level of compliance with the Sharia Law, and Muslim customers, attracted by the competitive rates, too, accepting sometimes various interest-free services only in part with Sharia law, but more attractive from the financial point of view. Due to this fact, to cope with local competition coming from conventional banking products, the Islamic banks, entering foreign markets, should make their products and services price competitive, too. With the growing Muslim population in the European Union, the customer base of Islamic banks is also increasing. The largest Islamic banks are mainly present in three countries: France (as an EU member state), Germany (as an EU member state), and the United Kingdom (as a former EU member state), however, these IFIs can be found almost everywhere by now. In the United Kingdom, for instance, the Al Rayian Bank PLC (the former Islamic Bank of Britain), the European Islamic Investment Bank (EIIB) – the first Islamic investment bank from Europe, the Bank of London & the Middle East (BLME), the

Gatehouse BankSecurities House (UK), etc. Brexit, as the withdrawal of the United Kingdom from the European Union at 23:00 GMT on 31 January 2020 (00:00 CET) had of course also affected the Islamic banking sector in the United Kingdom, however, this is not the subject of this paper.

Many Islamic banks combine commercial banking activities with investment banking, making more complicated supervision of these institutions more. Also, Islamic bank activity implies a higher level of risk compared to conventional banks, making some problems for regulatory authorities in the fields of capital adequacy and transparency requirements and customer protection: depositors of these banks participate not just in the bank profits, but losses, too. Islamic banks apply different resource mobilisation and investment methods, from that of conventional banks, challenging in this way the regulatory institutions. Islamic banking, however, may offer great opportunities too, for the financial systems and economies of the resident countries: their services can increase the social inclusion of the Muslim minorities, which nowadays represent the biggest minorities in Europe; the presence of Islamic banks can be considered as an attraction of the important part of oil wealth from the Gulf region, and as an additional source of liquidity and finance for the national economy; the presence of the Islamic banking industry in the European Union can be viewed as a bridge for international financial groups, seeking to diversify their investments, to the Islamic world. Nowadays they are activating many conventional banks, which also offer banking products and services in compliance with Islamic laws. For example in Germany: Commerzbank, Deutsche Bank.

Regulation of Islamic banks in the EU

With the increasing numbers of IFIs the members of the large Islamic community in Europe, who refrained from benefiting from conventional financial services on religious grounds, are now able to benefit from the financial market without violating religious norms. The emerging institutions of Islamic banking services, however, are creating a challenge to the supervisory and regulatory bodies. [7] Unfortunately, there is not yet an Islamic bank branch in our country, Hungary, but hopefully, the growing demand will soon bridge this gap.

[7] Khan, M. F. (2010): Islamic banking in Europe: the regulatory challenge. In: : Khan, M. F.–Porzio, M. (Eds.): *Islamic Banking and Finance in the European Union*. Northampton: Edward Elgar Publishing.

Islamic banking in France

Up to 2008 in France, and although some financial institutions seem to be willing now to enter into a licensing process for this purpose, the development of Islamic finance has concerned mainly investment banking and not retail banking, but this situation could evolve: even though France has a Muslim population of about 6 million, only a handful of French banks, such as BNP Paribas and Société Générale currently offer wholesale Islamic services. These types of structures are called "Islamic windows". [8] These windows have contributed significantly to the development of Islamic finance, although the French Islamic windows do not provide retail products at all. In France the Committee for Credit Institutions and Investment Companies (in French: Comité des établissements de crédit et des entreprises d'investissement, CECEI) is the foreign banks' gateway to the French territory. It is the competent authority for delivering authorisation to new banks, whatever the origin of the funds and also for authorising shareholder changes and mergers of existing banks, and for broadening the scope of banks' activities when the initial authorisation has circumscribed the field of activities. CECEI cannot deliver Islamic banking authorisations or licenses under the non-discriminatory principle. The authorisation by the CECEI of credit institutions claiming to be

Islamic should be subject to the same principles, rules, and standards that apply to any institution seeking to establish itself in France. [8]

[8] Arnaud, C. (2010): The French licensing authority faced with the globalisation of Islamic finance: a flexible position. In: Khan, M. F.–Porzio, M. (Eds.): *Islamic Banking and Finance in the European Union.* Northampton: Edward Elgar Publishing.

Islamic banking in Germany

Supervision (Gesetz über die integrierte Finanzaufsicht – FinDAG), the Federal Financial Supervisory Authority (Bundesanstalt für Finanzdienstleistungsaufsicht – BaFin) was established on 1 May 2002. The functions of the former offices for banking supervision (Bundesaufsichtsamt für das Kreditwesen – BAKred), insurance supervision (Bundesaufsichtsamt für das Versicherungs wesen – BAV), and securities supervision (Bundesaufsichtsamt für den Wertpapierhandel – BAWe) have been combined in a single state regulator that supervises banks, financial services institutions and insurance undertakings across the entire financial market and comprises all the key functions of consumer protection and solvency supervision. This Federal Financial Supervisory Authority makes a valuable contribution to the stability of

Germany as a financial centre and improves its competitiveness (German Federal Financial Supervisory Authority 2003). The BaFin is a federal institution governed by public law that belongs to the portfolio of the Federal Ministry of Finance and as such has a legal personality. Its two offices are located in Bonn and Frankfurt/Main, where approximately 1500 persons are employed. The BaFin supervises about 2000 banks, 650 financial services institutions, and around 630 insurance undertakings (BaFin Report 2008). The decision to set up the BaFin was made basically in light of the fundamental changes in the financial markets which required a legislative response that would ensure the future stability of the German financial system. [9]

With a Muslim population of more than 2 million people, considerable direct investments in and extensive trade relations with the Muslim world, Germany is an interesting location for Islamic banks. With a significant Turkish immigrant population, it was obvious to establish a bank with Turkish roots first. In July 2015, the Eurozone's first Islamic bank opened its doors in Frankfurt. KT Bank AG is a subsidiary of Turkish Kuveyt Türk Bank, whose majority shareholder is the Kuwait Finance House. Germany is a crucial market for Islamic finance in continental Europe. [10] Also, Bahrain's Al Baraka Banking Group launched a digital banking service in Germany offering its interest-free financial services across Europe in 2018. The lender, which has operations in the Middle East, Asia, and Africa, launched its branch-free "Insha" service through its Turkish subsidiary Albaraka Turk. The digital banking service would be the main strategy for penetrating the European market, including an estimated 20 million Muslims living on the continent. The digital bank will initially offer basics such as bank account management, online payments and money transfers, with plans to include a wider range of Islamic banking services at a later stage.

Islamic banking in Italy

The Italian financial legislation, like the European Union framework from which it derives, consists in a consistent, complete set of rules under which a variety of forms of intermediation, including Islamic finance, can be conducted. Contract law in Italy is governed by Art. 1322 of the Italian Civil Code, which states that:

"[1] the parties can freely determine the contents of the contract within the limits imposed by law.

[9] Engels, J. (2010): German banking supervision and its relationship to Islamic banks. In: : Khan, M. F.–Porzio, M. (Eds.): *Islamic Banking and Finance in the European Union.* Northampton: Edward Elgar Publishing.

[10] Soylu, U. (2019): *Status of Islamic Finance in Germany in 2019.* Accessed: 9 August, 2022/

[2] The parties can also make contracts that are not of the types that are expressly regulated, provided that they are directed to the realization of interests worthy of protection according to the legal order".

The principle expressed by the first paragraph of Art. 1322 of the Italian civil code goes under the name of the *"principle of contractual autonomy"*. This principle in coordination with the provision expressed by the second paragraph of said Article, admits the entrance into our legal order of *"alien contracts"*. The sole limit to the validity of these contracts is that they must not contain provisions that do not respect the Italian *"general principles"* and *"mandatory rules"*. [11]

In addition to banks, the Italian and European financial system comprises other types of the financial institution that could serve as a point of reference for operators interested in marketing Islamic financial products in Italy. For instance, SGRs (*società di gestione del risparmio* – asset management companies), which under the Consolidated Law on Finance may provide individual portfolio management services or institute collective investment funds, and SICAVs (*società di investimento a capitale variable* - open-end investment companies). Despite the many significant analogies between asset management and the type of intermediation exercised by Islamic banks, however, in their home countries the latter as "banks" are not required to keep customers' managed assets separate from their capital, as asset management companies must do in the Italian system according to Article 22 of the Consolidated Financial Law of Italy. [12]

The opening of an Islamic bank in Italy is possible provided that the ordinary rules and controls applying to the constitution of a new bank or the establishment of a foreign bank branch are complied with. The minimum capital required for a new bank is €6.3 million. The application must be submitted to the Bank of Italy, accompanied by the act of incorporation, the bylaws, and documentation attesting to the existence of this capital, the integrity of the shareholders, and the competence and integrity of the management. [12] There are two other ways of entering the Italian market to perform banking activities of an Islamic character: opening a branch of an Islamic bank established in a non-EU country and opening a branch of an Islamic bank already constituted in another EU Member State. [12] In Italy these branches are operating as Shariah-compliant institutions: First Security Islami Exchange Italy Srl Bank (FSIB), Arab Banking Corporation (ABC) SA, and Milan Branch Bank.

[11] Cauteruccio, M. (2018): Islamic Finance in Europe. *Linkedin,* February 22, 2018 URL: https://www.linkedin.com/pulse/islamic-finance-italy-matteo-cauteruccio /Accessed 10 August 2022/

[12] Donato, L.–Freni, M. A. (2010): Islamic banking and prudential supervision in Italy. In: Khan, M. F.–Porzio, M. (Eds.): *Islamic Banking and Finance in the European Union.* Northampton: Edward Elgar Publishing.

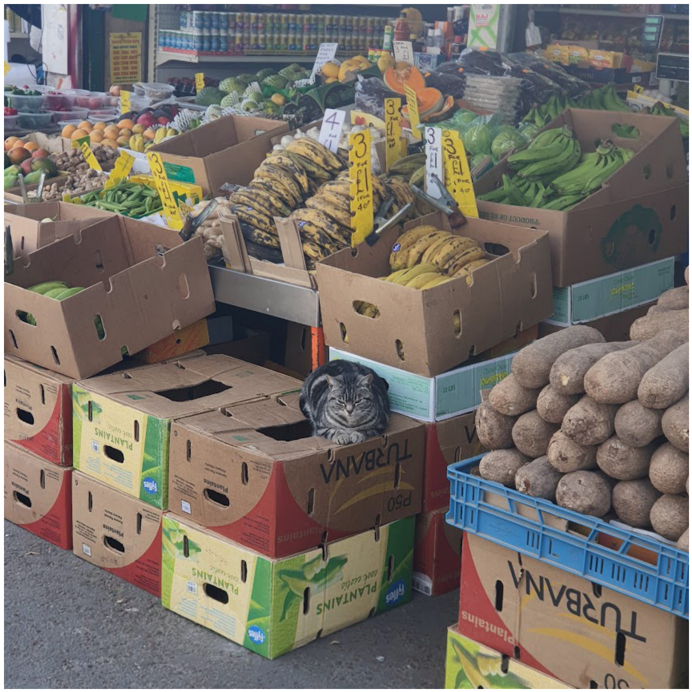
The European Federation of Ethical and Alternative Banks and Finances (FEBEA)

The European Federation of Ethical and Alternative Banks and Finances (FEBEA) gathers 33 financial institutions from 15 countries in Europe, to develop and promote Ethical Finance principles. This organization set itself the task of developing ethical and social finance in Europe. According to the information on its homepage, through the activities of its members and its initiatives, FEBEA defends a committed, rigorous and ambitious vision of social and ethical finance. The Federation supports social finance, social economy entrepreneurs, and all citizens and groups who work for the development of a fairer, more sustainable, and more inclusive society. To this end, the Federation has therefore set concrete objectives: to support the exchange of information and experiences and cooperation between national networks and social economy and finance practitioners in Europe and the European free trade area; to represent its members at the EU institutions and the financial and political organizations and leverage different political levels and European institutions; to give concrete supports to the efforts of its members, including in the creation of banking and financial instruments that are necessary to accomplish their goals. Our examination of the websites of Febea's partners revealed that none of the European financial institutions that call themselves „ethical" offer Sharia-compliant financial services.

Conclusion

The migration crisis of the 21st century and the high birth rate of the Muslim population already living in the European Union, also the increasingly close economic relationship with investors in the Middle East create strong market opportunities for Islamic banks within the European Union. Despite all this, it is surprising that there are still member states where Islamic banking is unknown, and that even in Western European countries with larger Muslim populations, there are only a few branches or „Islamic windows" in 2021.

Another thought-provoking piece of information is the member list of FEBEA on which no Islamic bank can be found. If the European Union's approach to „moral" banking is represented and supported by an organization that agrees with the imposition of interest, we can conclude that there is still a lot of work to be done in this area in the promotion of Islamic finance in the European Union.


TURBANA
PLANTAINS
P50