

Overcoming the Global Economic Crisis in The Perspective of Islamic Finance

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Abstract

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This paper makes a connection between the global financial crisis and an Islamic financial model. The goal is to downplay the severity and frequency of the financial crisis by sharing risk among financial participants. This is accomplished through a system of shared credit creation. When purchasing real goods and services from people who have them and need to sell, people are given access to credit that they can use to buy what they need. Both sellers and buyers want to receive delivery of their purchased items, so the system creates economic growth through increased credit availability. Studying Islamic finance literature allows people to explore the possibilities and restrictions of inherited situations. This leads to new financial design solutions for the current financial crisis as well as future financial collapses. It also uses critical thinking and analysis to create new possibilities and constraints in situations. New financial systems should use a business model based on shared profits and losses. This was based on academic studies and doesn't include any real-world testing. By incorporating Islamic financial principles into business practices, a new financial model could help finance businesses. This alternate system for the banking system could help control our financial system and encourage economic growth through more controlled credit expansion.

Keywords: : Islamic Economics, Economic Crisis, Global Finance

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INTRODUCTION

At this point, it seems like we're in the middle of a raging storm. However, concerns about more widespread economic distress have caused many people to worry that their troubles may be only the beginning. In fact, some have even suggested that a bank failure, company closure and credit card company bankruptcy will be the iceberg breaking through the water. Financial experts must understand the root causes of a crisis so they can treat it more effectively. After understanding the cause of a crisis, they can properly treat it by identifying the key points. Four key facts universally shared by all Islamic financial theories is that money can be created from money, selling subprime loan debt can earn extra cash, short selling can generate profit and no Islamic financial theory shares the belief that sharing financial risk with other investors is unislamic. We need to start thinking about how to prevent future financial meltdowns, trying to

make capital markets work more efficiently, and how to fund companies through alternatives to the banking system, or how we run our banking system differently.

The rigorous Islamic financial system fosters greater economic discipline and implements controls that prevent excessive credit creation. This leads to less severe and regular economic crises. The Islamic faith discourages borrowing through issuing loans or direct loans. The subprime mortgage crisis in the United States was caused by excessive and unwise lending. One of the effects of this was the creation of more debt through selling assets or leasing them through Sukuk, Ijarah and Murabaha financing methods. These methods involved lending through securitization or originating-to-distribution models. Mortgages mixed prime and subprime loans to create them. Because buyers' only choice was to buy the entire mortgage from the originator, they have little incentive to thoroughly research the risk of their loan (Wang & Liu, 2018). In many countries around the world, governments nationalized or shut down banks that failed due to lack of funds or excessive speculation. This led to a financial crisis that took place due to high levels of interest and gambling. Islam views money lending as wrong; as is the act of charging interest. Furthermore, Islam promotes values and ethics such as not coveting or ignoring others' finances. If these principles are upheld, then it's unlikely the current economic crisis can occur. This can be seen as one of Islam's overall goals.

In many countries around the world, governments nationalized or closed banks that had failed due to lack of funds or excessive speculation. This led to a financial crisis due to high interest rates and gambling. Islam considers it wrong to borrow money; and charging interest. Additionally, Islam promotes values and ethics such as not coveting or neglecting other people's finances. If these principles are followed, the current economic crisis is unlikely to materialize. This can be seen as one of the primary goals of Islam. This importance of Islamic finance helps insulate it from potential risks arising from excessive leverage and speculative financial activities. The sharing of financial risks and rewards is a major principle in Islamic finance. This is seen in the Mudarabah contract, one of many financial transactions used in the Islamic world. It's also why Islamic banking systems have a high regard for transparency; sharing financial information makes it easier for people to estimate risk premiums and adjust their investments accordingly. Sharia mandates certain financial features that help maintain economic stability within the Islamic financial system. These requirements provide built-in checks and balances within the system, ensuring an overall stable financial environment. The Islamic finance market has seen significant growth since 2000. It increased from \$5 billion to \$1.5 trillion in assets— a growth of over 1000%. Since then, it's been one of the fastest growing financial markets over the past 5 years. Since the 1990s, Islamic banking and finance have gained more followers and credibility. It's also the fastest-growing financial industry sector. Many people don't understand this new method of financial intermediation and few finance students study Islamic banking. However, its mystery is starting to be revealed. More than 250 Islamic banks exist around the world. They're considered small compared to other financial institutions, and their growth rate is around 15 to 20%. These banks follow Sharia banking laws called Fiqhal-Muamalat. Certain Islamic banking principles include not charging interest, sharing profits and losses, and separating deposits and investment accounts. Also commonly used are fees, leasing and joint ventures. Islamic finance principles link financial issues and corporate social responsibility in the context of global business. In Islamic finance, transactions must be bona fide, delivered and received with sufficient intent; and debts cannot be sold, so the risks involved cannot be transferred to another person.

People are encouraged to invest in Shariah-compliant stocks because they provide similar benefits to socially conscious investing. These benefits include greater employment opportunities, financial support for businesses and the creation of new goods and services. The Islamic system requires the use of a few specific financing methods that encourage larger financial investment within the real economy. This leads to less speculative trading since there's a financial need for new goods and services created by the real economy. Additionally, it frees up more financial resources for the real economic sector, thus encouraging more production and employment opportunities. Muslim and non-Muslim investors understand how both types of investments benefit them socially. Both filter out companies involved in unethical industries through a negative screen. They also block most of the same industry participants as each other. Both Islamic screens reject companies involved in gambling, alcohol, tobacco and weapons manufacturing. An Islamic financial system offers the benefits of an ethical investment system. It also provides transparency and accountability by following a dual bottom line of profits and social good. This inspires many to look into Islamic banking and finance. Additionally, these benefits appeal to non-Muslims and encourage them to join the Islamic finance community. Due to the practical implications of Islamic finance, such as prohibitions on using derivatives or short selling during a financial crisis, many people believe that the current financial crisis is dangerous. However, this is incorrect. Islam strictly prohibits gambling and speculation. All financial transactions must be intentional and have the intent to provide and receive deliveries. Additionally, debts can't be sold and risks can't be transferred to another party. Islamic lenders provide affordable loans to borrowers with subprime credit. This lowers the financial burden for borrowers with rich bankers as a creditor. It also eliminates billions of dollars in lost savings for wealthy bankers (Ghannadian & Goswami, 2004).

METHODS

This study uses a specific research method to answer its research questions. Called empirical investigation, this method uses only data gained through observation or scientific collection to find findings. Empirical researchers can see new principles of Islamic finance emerge through their observations and measurements. They can also see new ideas in Islamic economic theory develop through their research. In addition to this, they can perform normative research based on the direct experiences of the researcher. This method uses data collected that can be compared with theory or hypotheses. However, results are still based on real experience (Fitzgerald, 1998).

RESULT AND DISCUSSIONS

Mode of Operation in Islamic Finance

Currently, Islamic finance maintains a balance between its financial system and the fundamentals of Islam. This section explores how the current system has achieved structural equilibrium and details that a cooperative approach must be taken to further expand the financial network. The core beliefs of Islam must be adhered to in any Islamic finance system. Compliance is available in many areas of financial services, including operations, products and delivery. It can be accessed through processes, procedures and documentation.

Alternatives to Consumer and Business Loans.

In Islam, lending money is an important aspect of finance. However, the juristic concept of usury suggests that conventional banking methods are forbidden. This means that Islamic finance can't be asset-based. Instead, it must use tools like pawn shops to lend money for everyday purchases like cars and real estate.

Buying and Selling Arrangements with Murabaha.

Depending on the purpose of financing and the location, additional taxes and fees may be required. HSBC was allowed to practice double sales financing in the UK after a recent change in government regulations. Also known as Islamic home financing, Manzil USA was a religious mortgage program that was discontinued after being suggested by the United Bank of Kuwait. Both these suggestions were made by the US branch of the UBK. Some financing methods require additional fees or tax. For example, the UK recently changed a regulation to allow Islamic financiers—like HSBC—to perform double sales financing without paying double duty tax. Additionally, UBK requested that an Islamic home financing program be added in the USA. However, this request was declined, and the program was discontinued shortly afterward. A letter to the Comptroller of the Currency from the OCC states that financing murabaha is functionally equivalent to financing real estate, financing inventory and equipment as well as banking. The OCC's letter stated that murabaha financing tracks conventional interest rates and is therefore part of a bank's business.

Lease-to-Buy or Reduce Partnership Arrangements with Ijara or Musharakah Mutanaqisa

The Office of Currency Commissioner states that typical Islamic financial structures include a buyer leasing a property from an investor through an SPV. This structure is used as the legal justification for purchasing financed property through an SPV, as well as holding title in one. Customers make monthly payments that are part of the principal rent, which enables them to pay less rent than if they were paying cash.

Banks create leases that resemble loans with the same economic properties. These leases help banks profitably operate like lenders. It's clear that UBK's net lease functions as a loan where the Branch occupies a secure lender position. Securitizing a lease provides an additional advantage over other methods of leasing. It creates a certificate that represents the ownership of the leased asset. This allows the certificate's owner to collect the lease payments. As we discuss in a different section, this has contributed to the growing securitization industry in Islamic finance. Sharia mortgage-backed securities are currently being marketed as a fixed-income investment alternative for Muslims in the US by Fannie Mae and Freddie Mac. This is because they purchase mortgages guaranteed by Islamic ijara funds and meet legal hurdles through record requirements (El-Gamal, 2009).

Islamic banks have long provided services to businessmen. However, they recently started offering services to consumers. These involve a three-party contract known as Takarruq. It allows a client to monetize some commodities, which is similar to businesses borrowing money through a three-party contract for several years already. Imagine a customer wanting to borrow \$1,000 from an Islamic bank. The Hanbali school of Islamic law is well known in the Gulf Cooperation Council region. This led some Islamic experts from the GCC to conclude that banks can buy \$1,000 worth of commodities, like wheat, without interfering with the law. They can then sell them to customers on credit. Additionally, they can charge customers a mark-up

equal to the interest rate they charge on loans. Some experts also consider compensation for transaction costs associated with some sales when setting prices. Banks can instantly turn any sale into a debt owed to them by offering it to the party who sold it to them. A private sale can also be made to the same party, who then sells it again to the bank; this process can continue until the bank obtains the cash desired. At least one GCC bank utilized this method in 2004. Several conventional banks plan on Islamizing the way they operate by replacing loans of any purpose with financing provided by a Sharia compliant source. This was most notably announced by Saudi Arabia's National Commercial Bank, which stated that it planned to replace all lending operations in 2005.

Alternatives to Corporate and Government Bonds.

In the 1980s and 1990s, a small number of bond options were tested. Some use PLS, like Pakistan and Sudan's bonds. Others guarantee principal but don't guarantee a specific return rate— like Japan's bonds. The previous section discusses how an understanding of the lease takeover led to the creation of many lease-backed securities. These included bonds and securities backed by bonds issued by the federal government of Malaysia and Sukuk al-Ijara. The largest bond issue in 2004 was created by the UAE Civil Aviation Department for \$750 million. The Bahrain Monetary Agency placed the second largest monetary order. They asked Citigroup, a law firm called Norton Rose and other supporting corporations to create an agreement for them. In the first half of 2004, two of the biggest Islamic bond issuances belonged to National Central Cooling Company from the United Arab Emirates for \$100 million and Hanco Rent a Car in Saudi Arabia for \$26.13 million. The German Federal State of Saxony-Anhalt sold €100 million through marketing this bond as an Islamic bond issued by Western governments (El-Gamal, 2006). Additionally, two main government issues stood out to the public thanks to advertising in the Arab countries GCC: one was \$100 million from NACCO for National Central Cooling Company and another was \$26.13 million from HANCO Rent a Car (Palmer, 2008). The Dubai Ports' \$3.5 billion two-year PLS convertible bond is the largest corporate bond issuance in Dubai to date. It was issued in the beginning of 2006, which is also when sukuk issuance reached \$11.4 billion for that year. This was up from \$5.5 billion and \$4.6 billion in 2004 and 2003, respectively. In 2005, estimated at \$11.4 billion for sukuk issuance, there were \$706 million worth from sovereigns and \$1.5 million from corporations.

Issuers use the money gained from the bonds they sell to purchase properties from government-owned companies or federal governments. They then lease the properties back to the investors, who are effectively paying back their debt through leases. Several investment banks play key roles in this process, such as Citigroup for Bahraini and German treasury bonds and CreditSuisse First Boston for UAE refrigeration companies. European companies also get involved in this process by working with Barclays Bank and Dubai Islamic Bank (Kawamura, 2020). Some Islamic countries have issued short-term bonds. These are secured by an underlying asset, allowing for a secondary market to exist. Leased-backed bonds are designed to be long-term investments and typically secure an underlying physical asset. Bond issuers can use "parallel greetings" to match forward purchases with sale sales for the same item and delivery date. However, their sales will take place at different times. For example, a company can sell forward six month old corn for one million dollars today. Then, three months from now, this company can purchase the same corn again for 1.01 million dollars. This strategy is usually used to finance purchases made in the future for related commodities with the same delivery date. While

residual, commodity, and delivery credit risks may exist in this structure, issuers typically guarantee contracts so that bond buyers will – in our example – be guaranteed 1 percent in three months. Since the underlying assets for this type of bond are debts, Islamic experts decided that they could not be traded on the secondary market (except at face value, which defeats the goal). Thus, they were initially envisioned as vehicles especially for Islamic banks to survive until maturity. Recently, however, Bahrain has introduced several innovative buyback facilities, to enable Islamic banks to use such bills more effectively for liquidity management.

Alternative investment vehicles (mutual funds, private equity)

Islamic finance experts consider many products off-limits to Muslims, such as alcoholic drinks and pork. Additionally, they often ban arms manufacturers because of a jurisprudential ruling. Consequently, investors don't need a reason to avoid investing in companies that make these items or others that they declare illegal by Islam. Companies earn interest when they have more cash available; or they use leverage when dealing with more difficult problems. This proves their problem is much harder than most people realize. Because the scope of the universe of equity would be limited, Islamic jurists decided that all paying companies needed to be included in their rules. They created three financial screens to determine eligibility: any business with large receivables should be excluded; businesses with too much debt should be excluded; and any business receiving interest should be excluded. Dow Jones Islamic index standards were arbitrarily decided on after the financial institutions attempted many ways of displaying ratios. By implementing three rules, two guidelines and one ban relating to each other, they concluded on the internationally accepted set of rules. First, only companies whose debt to the market capitalization moving average is less than 33% are allowed to be included in the index. Additionally, companies with receivables that account for more than 45% of their assets are also excluded. Lastly, companies with interest income higher than 5% or 10% of their total revenue are banned from inclusion in the index.(El-Gamal, 2009). Both The Financial Times and Dow Jones launched their Islamic indexes in the late 1990s. Both indexes added other similar indexes, along with a smaller number of stocks related to finance. That's why many mutual fund companies use screening rules or licensing methods from one of these indexes as a benchmark. Compared to conventional funds, Islamic mutual funds have the same marketing advantages. They're also called "sharia-compliant" funds and they seem to have limited marketing advantages over conventional mutual funds.

Private equity banking boutiques and Islamic investments thrive thanks to the growing public consensus used by Islamic funds. These institutions typically receive funding from investors from the United Arab Emirates, Kuwait and Saudi Arabia. Foreign investment funds fueled by investors from the U.S. and the United Kingdom invest in local subsidiaries or partners around the world. These companies own real estate and small businesses that pass through screens and pay off their debts through lease-based leverage purchases, popular in the 1980s and 1990s. There are 134 stock mutual funds, six hybrid mutual funds, six sukuk mutual funds, two Takaful (insurance) funds, five leasing funds and real estate funds.

Insurance Alternatives

Insurance companies break Islamic law because they don't sell safety or insurance. Because Islamic law doesn't allow selling safety, many jurists argue that buying insurance is the same as gambling. They say that insuring someone else is like paying a price for an insurance

policy. However, people pay a regular premium in hopes of receiving compensation if their stuff gets damaged or stolen. Islamic law experts considered insurance to be a problematic phenomenon due to its focus on interest-based instruments like mortgage-backed securities and government bonds. One suggestion made by these experts was the creation of a similar concept called *takaful*, which was adopted by some Islamic countries. However, it took years for this change to occur. *Takaful* is an Arabic word that means both insurance and philanthropy. It's the idea behind mutual insurance a financial contract in which one buys coverage and the other sells payouts as an exchange. *Takaful* is similar to mutual insurance in that it involves two parties sharing money voluntarily. People with *Takaful* insurance purchase insurance coverage through a financial company, which is similar to buying stock in a company. However, arguing that *Takaful* contracts aren't commutative contracts makes the companies look like stocks instead of insurances. A recent Saudi Arabian bank, Bank Al-Jazira, successfully changed their insurance model to resemble Western mutual insurance. This new structure has increased their success by making them non-inclined to invest in conventional government bonds and fixed income securities. Both bank *Takaful* companies avoid investing in these conventional investments. In recent years, the Islamic financial market has grown tremendously with the creation of newer analogues to Islamization. This has caused some reinsurance companies to question the need for a "re-*Takaful*" industry. Because of this, some Islamic financial experts enacted a rule that forced *Takaful* companies to sell their risks to conventional reinsurance companies. They also suggested that these companies work to rebuild the *Takaful* company as soon as possible.

Bank Deposits and Alternatives to Fixed Income Guarantees

Islamic banks can only accept fiduciary accounts; these account types can't pay interest. Because interest is considered usury in the Islamic faith, these banks can't deposit money that pays interest. However, they can take "managed account" funds where they invest the money on behalf of the account holder and share in any profits and losses. With this in mind, it's easy to see how Islamic banking can face issues with both moral hazard and legal repercussions. Banks soliciting deposits from the general public are met with strong disapproval from jurists. And because these customers are creditors first when their accounts are seized due to fraud, they're also considered stakeholders on the company's board of directors (El-Gamal, 2004).

Principles of Islamic Finance.

Islam covers all aspects of a Muslim's life. It determines their articles of faith, the relationship between man and God and man, as well as their moral and behavioral codes. It also provides a framework for daily activities. Islam's Sharia law or principles have been derived from the Quran and teachings and practices of the Prophet Muhammad. This law governs Muslims' economic and social activities, as well as any businesses or ventures they create. Many Islamic economic models exist thanks to these decisions on financial transactions by Sharia law. The Islamic financial system evolved from the concepts contained in this template. For instance, see how each financial arrangement adheres to these principles outlined below (Kawamura, 2020): Everyone involved in a transaction makes the right decision without being misled or deceived. Furthermore, Islamic economics stresses equality and justice. Islam encourages personal economic growth and prosperity but makes a clear distinction between commercial and non-commercial activities. For example, Islam prohibits the buying and selling of alcohol, gambling, pork products and other socially harmful activities. On a macroeconomic level, Islam model

seeks social justice and economic prosperity for the whole society. One sharia ruling seeks to reduce the amount of management concentrated in certain hands by encouraging entrepreneurship among individuals. Sharia law strictly forbids Muslims from engaging in economic activities that involve interest. This is because many believe that paying an interest rate is the same as usury. Because of this, conventional banking methods are haram or sinful by the Islamic community. Modern Islamic banking has developed mechanisms that allow interest income to replace cash flows from productive sources such as B. income from wealth-creating investing activities and operations. These include profits from asset transactions (real) and cash flows from the transfer of rights of use (rights to use the asset), such as rental income (Bahrain Monetary Agency, 2002).

The Relationship Between the Global Crisis and The Islamic Financial Model

The Main Roots and Causes of The Crisis

Banks' lending money over long periods of time ultimately lead to financial crises. A single cause isn't necessary when creating new architecture; instead, the best approach is to determine why the current situation exists. This can be done through examining banks' motivation for lending money. Banks shouldn't lend money that isn't in their own interests—which suggests that they shouldn't lend money for too long. In order to close the financial system, three things are needed. One of these is the lack of planning and leadership in the financial industry. Another is the large size of credit default swaps, or CDSs, which makes it difficult to understand. The third is the idea that large corporations need assurance from the government that they will be rescued if they get into trouble. This is because too big to fail is not understood well enough by the public (Muh. Rudi Nugroho, 2014).

A Subprime Mortgage Crisis Occurred During the Time Point of The Great Recession

The subprime mortgage crisis is an example of how lending created too much risk. Essentially, securitization mixed subprime loans with prime mortgages and gave the resulting templates to lenders. This process mixed debt in a way that made buyers more likely to default; meanwhile, it also made lenders responsible for the full risk of default. Since buyers usually don't want to take on financial risk, they're typically reluctant to buy subprime mortgages. Front-facing mortgage brokers reject careful underwriting, leading to more high-priority loans with poor quality and more speculative and subprime borrowers.

Incorrect or deceptive lending practices push borrowers into mortgages they wouldn't choose. Without any oversight, unscrupulous loan officers use self-interested sales tactics to convince people to take out loans they wouldn't want. This can be seen as supervisors failing to identify early warning signs of predatory lending. And it can be proven by their inability to stop the practice in its early stages. When governments of other countries needed to save their banks or nationalize them, it caused tremendous financial instability in the US, Europe, and other regions across the globe (Filippo di Mauro, 2013). This led to a credit crisis that continues to this day; even healthy banks struggle to secure loans. Many people suspect that this is just a preview of things to come as more defaults from companies, financial institutions and credit card companies are expected if the current recession continues. When lenders are unsure about repayment, they'll turn to other financial tools such as CDSs to hedge their bets. The buyer of a CDS swap pays a higher price to the seller to compensate them if the debtor defaults on their

loan. If the buyer is also the creditor, there may be no issue with this derivative. Hedge funds sell swaps to other financial institutions as well as the lending bank they're associated with. These swaps are bets that the debtor won't pay off their loans. Multiple financial institutions participate in this swap, and it's repeated several times (Wang & Liu, 2018).

What Does Islam Say?

The Quran asserts that a society without justice will eventually face destruction or decline. Islam's financial system is one of the most important goals because it aims to create systems with established moral values. The system would need to be recognized and adhered to by everyone in the society. To support justice, the financial system needs to meet at least two criteria. First, it must be sound and reliable, as well as moral. Second, it should distribute financial risk along with its rewards so that financial institutions don't place all the burden on the economic sector. This will help the poor economically by giving them access to financial resources through self-employment opportunities and increased access to employment. Additionally, this will reduce income and wealth imbalances in society. Before Islam can support justice, which is also considered a necessary prerequisite, financiers and businessmen must treat profits and losses equitably. In Islam, the concept of "no risk, no profit" is one of the most basic principles. This is because it helps motivate financial institutions to carefully consider risks when creating new business ventures or assessing a financial investment. By encouraging more careful risk assessment by business owners and financiers, Islam's financial system can better regulate borrowing and prevent borrowers from taking loans they can't repay. Those who support a mainstream economy often prefer Islamic finance due to its increased use of PLS financing. Ideally, this would lead to increased shares of both equity and PLS in the business (Van den Berg, 2016).

Although debt is necessary for running the finances of a country or organization, borrowing money for frivolous or unnecessary purposes is discouraged. Instead, it's recommended to borrow money for more productive or necessary purposes. These include funding investments in new technology or establishing infrastructure. However, borrowing money for unproductive speculation or excessive consumerism is discouraged. This is because all financial needs don't necessarily agree with shares and PLS (parallel lines). Consequently, debt financing isn't ruled out; it just shouldn't be used frivolously. Islam's financial system uses sales or leases of real assets as a means to create debt. This can be done through sukuk, Ijara, salam, istisna and murabaha financing methods. Loans are not allowed in this system; instead, debt is created by selling assets. Only things that currently exist can be sold or leased. This ensures the money borrowed won't be imaginary or non-existent items. Additional conditions ensure companies only borrow what they need and pay it back with interest. The seller or lessor must own and own the goods sold or rented. The transaction must be an original commercial transaction with full intent to deliver and receive delivery.

If a debt is sold, the lender loses any chance of compensation— they must shoulder the risks themselves. That's why most credit derivatives aren't worth anything more than a third party's bets. The second reason why these contracts aren't worth much is because the buyer or lessee shares in the profits. That way, everyone gets a piece of the pie. Ownership and sale of goods falls into the financier's lap once a buyer comes forward. This introduces risk, eliminating the possibility of city center short sales. However, certain Islamic proscriptions allow exceptions in cases of greetings and istisna. In order to produce goods or deliver them in progress, for

example, an item must've already been available for sale. Expanded financing through Islamic fashion can thus develop only in line with the rise of the real economy and thus help curb excessive credit expansion. The third and fourth conditions will not only motivate creditors to be more cautious in evaluating credit risk but also prevent unnecessary explosions in transaction volume and value. This will prevent debt from rising well above the real economy and also release large volumes of financial resources for the real sector, thereby helping to expand employment and entrepreneurial opportunities and the production of goods and services that meet the needs. However, the discipline that Islam introduces in the financial system may not materialize unless governments reduce their loans from central banks to levels aligned with the goals of price and financial stability.

Limiting the financial system to bigger institutions can help borrowers even the playing field. As such, new adaptations must be made to the current financial system. These additions will prevent financial failures and bankruptcy during a financial crisis. Speculation limits must be enforced as artificial inflation leads to massive financial losses for investors. In fact, some countries have already limited speculation by implementing capital controls. The Islamic financial system eliminates the main weaknesses of the conventional system by eliminating borrowers with subprime credit. This prevents financial crises from occurring frequently and intensely because these borrowers are prevented from owning their own homes or starting their own small business. Informing the financial system of greater financial discipline, the new system links growth to credit by requiring financiers to share risk. Instead of purchasing debt on sale, buyers purchase goods and services from sellers who own them. Additionally, sellers must deliver the goods or services that buyers want; hence, buyers are not required to purchase debt. Furthermore, creditors must bear the risk of default by prohibiting the sale of debt. Because of this, creditors can more carefully evaluate risks when buying debt. After the crisis, billions were spent by the wealthy to save their banks. This is because Islamic finance can provide affordable loans to people with subprime mortgages.

CONCLUSION

Islam discourages borrowing and interest-based transactions, so the religion encourages business and trade. Their financial practices are closely connected to productivity; they're separated from risky speculation and excessive leverage by being inherently Islamic. This separation from risks helps avoid the current financial crisis's root causes.

Many financial transactions in the Islamic faith share risk and benefit. One example is the Mudarabah contract, which rewards both sides with a payout upon completion. Musyarakah contracts are similar, except they reward only one party. These contracts require special transparency through contracts that lay out the specific terms. This allows people to correctly evaluate risk premiums and lead to more effective market discipline. These features, which are required by Sharia (Islamic law) orders, provide built-in checks and balances that serve to ensure the financial stability of the Islamic financial system (Mescher, 2016).

Islamic finance has experienced a significant growth spurt since 2000. Its combined value has grown to almost \$1.5 trillion, and it is one of the fastest-growing financial markets in recent memory. Expect Islamic finance to continue growing at an accelerated rate over the coming years. This is due to its unique features, including halal investing and specific monetary regulations. In comparison to other religious finance systems, the Islamic financial system is one of the fastest growing. It has assets over \$1 trillion and attracts substantial participation from

non-Muslims. Employing a competitive financial approach, it has even higher assets than five times what it was just a few years ago.

In addition to traditional banking roles, new Islamic financial institutions have diversified the scope of their operations. These institutions handle private equity, project financing, sukuk bond issuance and management, asset and wealth management. This expanded scope of business has led to the development of new markets and markets across the world.

Islamic finance has grown significantly thanks to the legal and regulatory framework it creates. This is because of the different financial aspects included in Islamic financial practices. Any additions to this framework help ensure continued evolution of Islamic finance.

As Islamic finance continues to grow in popularity, it becomes an increasingly important part of the international financial system. Additionally, it's quickly approaching a state where it can contribute to significant global financial integration. By connecting different markets in different regions through an efficient financial resource chain, Islamic finance can help improve global growth prospects. The increased importance of Gulf sovereign funds during this financial crisis may cause Islamic banking to play a larger role in global finance. This unaffected by the financial crisis, as sharia-compliant finance may become a partial replacement for capitalism. Current financial systems stemming from the West are necessary for global financial stability. However, it may be too much to expect radical changes to this architecture; many institutions still need to incorporate elements of Islamic finance into their systems. This is because some reforms do not require shifting the entire system and would instead help improve certain aspects of the current infrastructure. These would include incorporating Islamic finance into the current systems or borrowing from governments or other sources of financing. While Islamic finance is still an infant, its use shares a small portion of the financial sector. The importance of debt generation methods over other methods persists. Currently, the system's functionality is limited by lack of preparation. However, it's expected that this system will become more prominent as time progresses and help bolster efforts at promoting health and stability in the global financial system.

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