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**ISLAMIC FINANCIAL SERVICES
INDUTRY: FUTURE CHALLENGES
AND OPPORTUNITIES**

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I. FOREWORD:

The recent global financial crisis and resulting liquidity crunch has affected all economic sectors, especially those of the developing countries. The shrink in banking services worsened the position of productive units in accessing finance. Banks become even more reluctant to bear traditional risks inherent in all types of economic activities. Doubts about financial soundness of fund providers have also lessened opportunities of real sectors in accessing institutional finance.

These circumstances create the need to know more about other financial alternatives. One of these viable options is Islamic Finance which is growing fast over the last four decades. As a complement or an alternative to conventional finance, some key players in global financial markets have started long time ago Islamic financial services. UBS, Paribus, HSBC as an example have opened Islamic banking windows since mid-80s.

Though the international financial system is in a turmoile, the global expansion of Islamic finance has continued and its development has remained sustainable. Islamic finance has become one of the fast growing financial segements in the international financial system:

Modest estimates indicate that Islamic Finance is recording high growth levels: nearly a US\$ 2 trillion in assets and mutual funds, and an annual growth rate of 15-to-20 percent. This implies that Islamic Finance could complement and / or be a feasible alternative to conventional finance.

In addition, some perspectives of Islamic Finance like partnership could make it more attractive to investors as profit and loss are shared. Thus, Islamic finance can offer new perspectives and ways to implement financial transaction for the benefit of economic development.

However, since Islamic finance expands to serve the global community and becomes an integral part of the international financial system, it will certainly be subject to risks and development in the international financial system. Islamic finance is also going to interact with a new environment that will be reshaped by the international regulatory reform being undertaken in the post crisis times. Therefore, the foundations of Islamic financial system need to be strengthened to