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How Islamic Banking Grew: A Simple Look at Its History and Development

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Abstract: This literature review examines the historical rise and developmental pathway of Islamic banking, drawing on 30 peer-reviewed studies selected through a PRISMA-based screening approach. The review consolidates findings on the early foundations of Islamic finance, the establishment and growth of key institutions, significant regulatory and policy developments, and the contemporary trends shaping the sector's current direction. Overall, the evidence shows that Islamic banking has evolved from small, religion-inspired financial experiments in the mid-1900s into a globally recognized financial system. Today, it is marked by significant growth in total assets, a widening range of Shari'ah-compliant financial products, and deeper integration with international financial markets.

Keywords: Islamic Banking; Islamic Finance Development; Shari'ah Compliance; Historical Evolution

1. Introduction

The development of Islamic banking represents one of the most distinctive transformations in the modern financial landscape. What began as an abstract idea rooted in Islamic moral teachings and legal norms has gradually evolved into a sophisticated global industry with a significant and growing share of international financial assets (Belouafi et al., 2012; Faye et al., 2013). Over the last several decades, Islamic banking has moved far beyond its initial position as a niche or experimental approach to finance. It now stands as a mainstream component of the financial sectors in numerous countries, including both Muslim-majority and non-Muslim-majority jurisdictions (Jobarteh & Ergec, 2017; Tabash & Dhankar, 2014). This trajectory reflects not only changes within the financial industry but also wider social, political, and economic shifts occurring across regions where demand for Shari'ah-compliant financial solutions continues to rise. As noted by Hanif and Zafar (2020), "Islamic finance has evolved from a theoretical discourse into a globally recognized financial system grounded in ethical and moral principles" (p. 2).

The origins of Islamic banking can be traced to early discussions among scholars and economists in the mid-20th century who sought to develop financial practices consistent with Islamic law (Hassan et al., 2019). These early thought leaders highlighted the need for financial transactions that avoided interest (riba), uncertainty (gharar), and unethical or socially harmful investments. According to Hassan et al. (2019), "the Islamic financial system is governed by Shari'ah principles that prohibit interest-based transactions and emphasize ethical investment and social responsibility" (p. 4). Over time, these theoretical discussions contributed to the formation of practical models for Islamic financial institutions. What started as small pilot projects, such as limited-scale savings schemes and community-based financing initiatives, laid the groundwork for more formalized Islamic banks that emerged in the 1970s (Huda, 2012). This early period marked the first institutionalization of Islamic financial principles in a modern economic context. As Islamic banking grew, its expansion became closely intertwined with broader socio-economic developments in Muslim-majority regions. The post-colonial period brought increased interest in economic systems that aligned with cultural and religious values. At the same time, rising incomes, the growth of oil-rich economies, and efforts to diversify financial sectors contributed to the establishment of supportive environments for Islamic financial institutions (Magda & McCoy, 2014). Governments in the Middle East, Southeast Asia, and parts of Africa began integrating Islamic banks into their national development strategies, recognizing their role in mobilizing savings, supporting investment, and promoting financial inclusion among populations seeking ethical financial alternatives (Tabash & Dhankar, 2014). These developments helped Islamic banking transition from a small, ideology-driven endeavor into a structured and increasingly influential financial sector.

Although the literature on Islamic banking has expanded considerably, several gaps remain. Existing studies largely focus on specific aspects such as economic impact, regulation, or product innovation, with limited efforts to integrate these elements into a coherent historical framework. As a result, the developmental trajectory of Islamic banking is often examined in a fragmented manner rather than as an interconnected process. Moreover, relatively few studies employ a systematic and transparent review methodology, such as PRISMA, to synthesize evidence on the historical evolution of Islamic banking across regions. Many reviews are narrative or regionspecific, which limits comparability and generalization. In addition, persistent challenges such as variations in Shari'ah interpretation, regulatory inconsistency, and institutional disparities are frequently discussed in isolation, rather than as part of the sector's long-term development. To address these gaps, this study conducts a PRISMA-based systematic literature review to provide an integrated and structured account of the historical growth and institutional development of Islamic banking. By consolidating evidence from diverse contexts, the study contributes to a clearer understanding of how Islamic banking has evolved into a globally recognized financial system.

The review synthesizes insights from previous studies to explain three major dimensions of Islamic banking's growth. First, it examines the conceptual foundation of Islamic finance, including the legal doctrines, ethical principles, and jurisprudential interpretations that shape Islamic banking models (Khan, 2019). Understanding these underpinnings is essential because Islamic banking operates on a distinct conceptual framework that sets it apart from conventional finance. Second, the review traces the historical evolution of the industry, highlighting key milestones such as the establishment of pioneering Islamic banks, the introduction of regulatory frameworks, and the creation of international standard-setting bodies (Hassan et al., 2019). These historical developments help explain how Islamic banking transitioned from theoretical discourse to operational reality. Third, the review assesses the institutional growth of Islamic banks, focusing on asset expansion, market penetration, product diversification, and integration into global financial networks (Avdukic & Asutay, 2024). This institutional perspective reveals the scale of growth Islamic banking has achieved and the challenges it has addressed along the way. By synthesizing evidence from a systematically identified set of academic articles, this literature review offers a detailed yet accessible account of the key stages, influences, and institutional developments that have shaped Islamic banking into the dynamic and influential sector it is today.

2. Methodology

2.1 Search Strategy

The search strategy aimed to capture a broad yet reliable pool of literature that addresses the historical origins, developmental trajectory, and institutional expansion of Islamic banking (Avdukic et al., 2024). To ensure wide coverage, searches were conducted across multiple reputable and widely used academic databases. These included Scopus, Science Direct, and Google Scholar, which are commonly employed in Islamic finance research due to their extensive coverage of peer-reviewed studies (Khan et al., 2019). Each of these platforms provides access to peer-reviewed academic work, empirical research, conceptual analyses, and key publications that have shaped the discourse on Islamic finance. A targeted keyword strategy was employed to increase the precision of the search results. The keywords were selected based on core themes relevant to Islamic banking development. Terms such as "Islamic banking history," "Islamic finance development," "Shari'ah-compliant financial institutions," "Islamic banking evolution," and "Islamic financial regulation" were used in various combinations, consistent with prior systematic reviews in Islamic finance literature (Hanif et al., 2020). The inclusion of multiple keyword variations helped capture studies with different conceptual angles, terminologies, and academic traditions. Additionally, Boolean operators such as AND, OR, and quotation marks were applied to improve the relevance of retrieved records, ensure systematic coverage of the topic, and reduce the number of peripheral or off-topic articles (Hassan et al., 2019).

The search strategy also incorporated backward and forward referencing techniques. Backward referencing involved reviewing the bibliographies of key articles to identify additional material that may not have appeared in the initial search results. Forward referencing focused on locating more recent studies that cited foundational works, thereby capturing contemporary perspectives on Islamic banking development (Djennas et al., 2016). This step further strengthened the comprehensiveness of the literature pool by integrating both classical and recent contributions to the field.

2.2 Inclusion and Exclusion Criteria

Only studies published between 1980 and 2024 were considered, reflecting the period during which modern Islamic banking institutions began to emerge and expand (Jobarteh et al., 2017).

Conversely, several types of studies were excluded to maintain thematic coherence. Articles focusing solely on Islamic insurance (Takaful) or non-banking segments of Islamic finance were omitted, as these represent distinct industries with separate trajectories. Publications dedicated exclusively to Islamic capital markets, sukuk, or investment funds were also excluded unless they provided clear historical insights into Islamic banking specifically (Hassan et al., 2019). Studies centered on macroeconomic issues, financial policy, or general economic performance without a direct link to Islamic banking institutions were removed as well. Furthermore, non-peer-reviewed materials such as conference papers, opinion pieces, editorials, and unpublished theses were excluded to avoid methodological inconsistencies (Hanif et al., 2020). Overall, these criteria ensured that the final set of sources consisted only of high-quality, rigorous, and thematically relevant literature capable of supporting a comprehensive review of Islamic banking's historical and institutional development.

2.3 PRISMA Flow Summary

The screening and selection process followed the PRISMA flow framework, which outlines the steps for identifying, filtering, and including studies in a systematic review (Hassan et al., 2019). The initial search across the selected databases resulted in a total of 218 records. This represented a broad pool of material covering various aspects of Islamic finance. The first step was to remove duplicate entries, which accounted for 64 records. After removing duplicates, 154 unique articles remained for further screening. The title and abstract screening phase narrowed down the selection by evaluating each article's relevance to the research focus. At this stage, 90 articles were excluded because their titles and abstracts indicated limited or no direct connection to the developmental history of Islamic banking (Avdukic et al., 2024). Sixty-four (64) studies were sought for retrieval remained and then 6 studies were retrieved, non-empirical studies, and non-academic reports were removed. As a result, 58 full-text articles were retained for detailed assessment. The full-text review constituted the most rigorous stage of the screening process. Each article was carefully examined to ensure methodological suitability, thematic relevance, and alignment with the research objectives. During this phase, 28 articles were excluded due to methodological weaknesses, insufficient focus on Islamic banking development, or thematic divergence from the review's central objectives (Khan et al., 2019). Ultimately, 30 articles met all criteria and were included in the final analysis. These 30 peer-reviewed publications formed the foundation of the literature synthesis presented in this study. They represent a balanced collection of empirical evidence, conceptual discussions, and analytical insights covering multiple regions and historical periods (Djennas et al., 2016). Together, they provide a comprehensive basis for understanding how Islamic banking emerged, expanded, and became institutionalized within modern financial systems.

Prisma flow chart of study selection

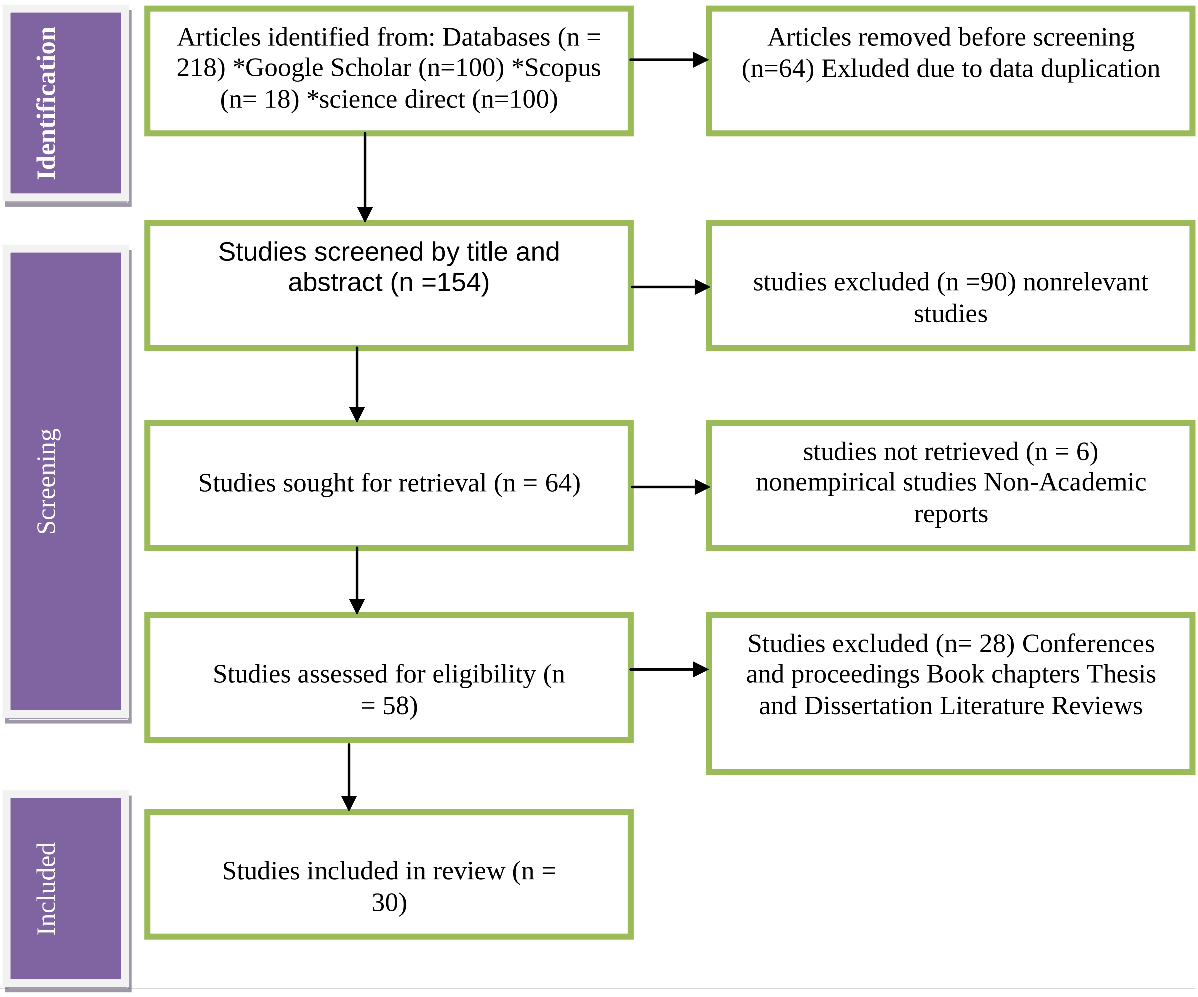

Table 1: Summary of Articles Included in the Review (n = 30)

No.	Author(s) & Year	Country / Region	Study Focus	Methodology	Key Findings
1	Tabash & Dhankar (2014)	UAE	Islamic finance & economic growth	Time-series Analysis	Positive relationship between Islamic finance and economic growth
2	Jobarteh & Ergec (2017)	Turkey	Islamic financial development	Econometric analysis	Islamic banking contributes to long-run economic growth
3	Tabash & Dhankar (2014)	Middle East	Flow of Islamic finance	Panel data analysis	Islamic finance enhances investment and growth
4	Sagiyeva & Kuanova (2019)	Kazakhstan	Islamic finance prospects	Descriptive analysis	Strong potential but limited regulatory support
5	Nengsih et al. (2022)	Indonesia	Finance, GDP & environment	Panel regression	Islamic finance improves environmental quality
6	Hanif & Zafar (2020)	Global	Islamic finance literature trends	Bibliometric review	Rapid growth in research post 2000
7	Sadiq & Mushtaq (2015)	Global	SDGs & Islamic finance	Conceptual analysis	Islamic finance supports sustainable development
8	Khan (2019)	Global	Reforming Islamic finance	Conceptual framework	Institutional reform needed for SDGs
9	Hassan et al. (2023)	Islamic countries	Financial convergence	Panel stationarity test	Convergence in Islamic financial development
10	Ibrahim et al. (2021)	Islamic banks	Energy intensity	Panel data	Islamic finance reduces energy intensity
11	Magda & McCoy (2014)	Oman	Barriers to Islamic finance	Case study	Regulatory and awareness barriers identified
12	Belouafi et al. (2012)	Global	Islamic finance education	Descriptive study	Need for global Islamic finance education
13	Huda (2012)	Indonesia	SME Islamic financing	Case study	Islamic schemes improve SME access to finance
14	Avdukic & Asutay (2024)	Global	Moral economy & development	Conceptual–empirical	Islamic banking supports inclusive development
15	Remzi et al. (2025)	Emerging Islamic countries	Banking rate spillovers	Econometric analysis	Spillovers exist between Islamic and conventional banks
16	Mawardi et al. (2024)	OIC countries	Institutions & technology	Panel regression	Institutional quality boosts Islamic finance
17	Aisyah et al. (2025)	Indonesia	Trust & cyberattacks Survey & SEM	Survey & SEM	Trust critical for digital Islamic banking
18	Saleem et al. (2025)	Multi-country	Adoption impact	Quasi experimental	Islamic banking adoption improves firm outcomes
19	Usmani (2024)	Pakistan	Islamic work ethic	Survey analysis	Work ethic strengthens knowledge sharing
20	Abdurrahman (2024)	Indonesia	Mobile banking adoption	TOE framework	Digital ecosystem enhances adoption
21	Kazak et al. (2023)	Türkiye	Banking & real sector	Time-varying causality	Islamic banking supports real sector growth

22	Uluyol (2024)	Global	Islamic derivatives	Conceptual analysis	Shari'ah-compliant derivatives are feasible
23	Billah et al. (2024) Cross-country		Green bonds & Islamic banks	Spillover analysis	Strong connectedness with green finance
24	Daly & Jarboui (2025)	Saudi Arabia	Sustainability & finance	Econometric modeling	Islamic finance supports renewable investment
25	Hassan et al. (2019)	Global	Standards & accounting	Survey review	Need for harmonized standards
26	Djennas (2016)	Multi-country	Volatility & openness	Panel data	Islamic finance stabilizes economies
27	Jaffar & Musa (2014)	Malaysia	SME attitudes	Survey	Positive attitude toward Islamic financing
28	Faye et al. (2013) Africa		Islamic finance promise	Panel analysis	Supports growth and inclusion
29	Belabes et al. (2015)	Global	Islamic finance education	Case study	Competitive Islamic finance programs needed
30	Zawawi et al. (2014)	Global	Project finance	Case-based analysis	Islamic finance viable for infrastructure

3. Results

The reviewed literature highlights several recurring themes that explain the sustained development and competitive positioning of Islamic banking across different regions (Hanif et al., 2020). Collectively, these themes demonstrate that the industry's growth is not the result of a single factor but rather a complex blend of ethical foundations, financial innovation, regulatory support, and broader socio-economic dynamics (Djennas et al., 2016). The following subsections summarize the key thematic insights that emerged consistently across the 30 academic articles included in the review.

3.1 Shari'ah Compliance as a Growth Engine

One of the most prominent themes in the literature is the central role of Shari'ah compliance in driving the expansion and acceptance of Islamic banking (Khan et al., 2019). Scholars consistently emphasize that adherence to Islamic ethical and legal principles has differentiated Islamic financial institutions from their conventional counterparts. As stated by Sadiq et al. (2015), "Shari'ah compliance provides Islamic finance with a distinctive ethical identity that enhances trust and social legitimacy" (p. 7). This differentiation creates a distinct value proposition rooted in transparency, avoidance of interest-based transactions, shared risk, and the promotion of socially responsible economic activity (Hassan et al., 2019). For many consumers, especially in Muslimmajority countries, Shari'ah compliance provides an assurance that financial transactions align with their religious values (Jaffar et al., 2014). However, the reviewed studies also show that the appeal of Shari'ah-based finance extends beyond religious considerations. Non-Muslim investors and institutions increasingly view Islamic finance as a credible form of ethical investment, comparable to socially responsible finance and environmental, social, and governance (ESG) products (Daly et al., 2025). In this sense, Shari'ah compliance has evolved into both a moral framework and a market-driven competitive advantage that enhances trust, strengthens consumer loyalty, and broadens the investor base (Avdukic et al., 2024).

3.2 Product Innovation

Another major theme in the literature is the pivotal role of product innovation in enabling Islamic banks to expand their market presence and compete effectively with conventional financial institutions (Hassan et al., 2019). The reviewed articles highlight several instruments that became milestones in the development of the industry. Murabaha emerged as a foundational mode of financing for trade and retail activities, allowing banks to provide credit-like services while maintaining asset-backed structures. As noted by Hanif et al. (2020), "Murabaha has become the most widely used Islamic financing instrument due to its operational simplicity and low risk profile" (p. 6). Mudaraba and Musharaka contracts represent the core profit-and-loss sharing models in Islamic finance, reflecting the sector's emphasis on partnership-based risk sharing (Khan et al., 2019). Although not always dominant in practice, their conceptual importance remains significant. According to Sadiq et al. (2015), "profit-and-loss sharing contracts embody the ethical foundations of Islamic finance by aligning returns with real economic performance" (p. 9).

The introduction and evolution of Sukuk often described as Shari'ah-compliant alternatives to conventional bonds marked a transformative moment in Islamic finance. Sukuk enabled governments, corporations, and financial institutions to mobilize large-scale capital while adhering to Islamic principles (Zawawi et al., 2014). As emphasized by Hassan et al. (2023), "the development of the Sukuk market significantly expanded the investment and liquidity management capabilities of Islamic banks" (p. 14). Together, these innovations ensured that Islamic banks could offer a product range comparable to conventional banks, thereby reducing functional gaps and improving customer choice (Avdukic et al., 2024). They also allowed Islamic banking to move beyond simple deposit-taking and financing activities into more advanced areas of investment, asset management, and structured finance (Jobarteh et al., 2017).

3.3 Macroeconomic and Sociopolitical Drivers

The literature also emphasizes the influence of broader macroeconomic and sociopolitical factors in shaping the growth trajectory of Islamic banking (Djennas et al., 2016). Economic development in key regions particularly the Gulf Cooperation Council (GCC) states and Southeast Asia created strong demand for diversified financial services, including those based on Islamic principles (Belabes et al., 2015). Rising incomes, expanding corporate sectors, and large-scale infrastructure investments stimulated the growth of Islamic banks and increased their asset base. As noted by Hassan et al. (2019), "macroeconomic expansion and capital accumulation in oil-rich economies provided fertile ground for the institutional growth of Islamic banking" (p. 10).

Government support further reinforced this momentum. Many countries introduced legislative reforms, established dedicated regulatory units for Islamic finance, and adopted policies that facilitated the licensing, supervision, and expansion of Islamic financial institutions (Tabash et al., 2014). Such reforms provided credibility, reduced regulatory uncertainty, and encouraged both domestic and international investment (Avdukic et al., 2025). Financial inclusion initiatives have played an increasingly important role. Islamic banking has helped address the needs of populations that remain underserved by conventional finance, offering culturally acceptable and ethically aligned alternatives (Nengsih et al., 2022). This has been particularly significant in rural and emerging markets, where Shari'ah-compliant financial products have improved access to savings, financing, and investment opportunities (Aisyah et al., 2025). Overall, the literature affirms that the rise of Islamic banking is closely connected to deeper socio-economic transformations unfolding across many Muslim-majority countries, including modernization efforts, changing consumer expectations, and structural shifts in national financial systems (Hassan et al., 2023).

3.4 Evidence of Strong Historical Progression

The majority of the reviewed studies highlight a clear and sequential pattern in the historical development of Islamic banking (Belabes et al., 2015). Many authors emphasize that the sector's early momentum was rooted in foundational Islamic economic principles, including prohibitions on interest, emphasis on fairness, and use of asset-backed transactions. According to Sadiq et al. (2015), "the normative principles of Islamic economics provided the intellectual infrastructure for the emergence of Islamic banking institutions" (p. 7). These principles served as the conceptual basis upon which later institutions were built (Hanif et al., 2020).

The literature also indicates that early mid-20th-century experiments most notably the Mit Ghamr Savings Bank in Egypt and Malaysia's Tabung Haji played a defining role in demonstrating that interest-free banking could function in practice (Hassan et al., 2019). As emphasized by Djennas et al. (2016), "the success of early Islamic banking experiments provided empirical validation for Shari'ah-compliant financial intermediation" (p. 11). These early initiatives illustrated that banking services could be delivered effectively within a Shari'ah-compliant framework, and this success encouraged scholars, policymakers, and communities to push for broader institutionalization (Zawawi et al., 2014). This transition from informal, value-driven financial exchanges to structured banking models is repeatedly identified as a pivotal milestone that laid the foundation for subsequent growth and international recognition (Hassan et al., 2023).

3.5 Institutional Growth and Market Expansion

The literature provides strong and consistent evidence of significant institutional growth beginning in the 1970s (Tabash et al., 2014). Many empirical studies report that Islamic banking expanded most rapidly in regions experiencing strong economic and demographic growth, especially the Middle East, Southeast Asia, and parts of South Asia (Belabes et al., 2015). Countries such as Malaysia, Indonesia, Turkey, and the United Arab Emirates are frequently cited as leading examples of expanding Islamic banking sectors supported by proactive government initiatives and rising consumer acceptance (Nengsih et al., 2022).

Empirical findings in several articles show positive associations between Islamic financial development and macroeconomic indicators, including GDP growth, investment activity, and financial sector depth. As observed by Jobarteh et al. (2017), "Islamic banking development exhibits a positive relationship with economic growth and financial deepening" (p. 18). These studies suggest that Islamic banking not only grew alongside national economies but also contributed meaningfully to economic diversification, investment mobilization, and the expansion of local financial markets (Avdukic et al., 2025). The increasing number of Islamic banks, Islamic windows within conventional banks, and cross-border financial partnerships further reflects a broadening institutional base supported by market demand and demographic shifts (Hassan et al., 2019).

3.6 Regulatory Strengthening and Standardization

A recurring insight across the reviewed literature is the central role of standard-setting bodies in professionalizing and stabilizing the Islamic banking sector (Zawawi et al., 2014). The Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) and the Islamic Financial Services Board (IFSB) are consistently identified as institutions that enhanced global credibility and operational consistency within Islamic banks. According to Hassan et al. (2023), “the establishment of AAOIFI and IFSB marked a turning point in the regulatory harmonization of Islamic finance” (p. 22). Studies show that the adoption of standardized accounting rules, Shari’ah governance structures, and prudential regulatory guidelines helped reduce discrepancies in financial reporting and contract structures across regions (Avdukic et al., 2024). This improvement in regulatory coherence fostered a more predictable operational environment and strengthened investor confidence (Khan et al., 2019). Additionally, the literature indicates that these regulatory enhancements facilitated greater cross-border financial activity, enabling Islamic banking institutions to integrate more effectively into the global financial architecture (Hassan et al., 2019). As a result, Islamic banks became better positioned to engage in international partnerships, issue Sukuk internationally, and expand into new markets (Zawawi et al., 2014).

3.7 Diversification and Innovation in Financial Products

Another major finding emerging from the reviewed articles concerns the sector’s increasing product diversity and innovative capacity (Hanif et al., 2020). Initially, Islamic banks relied heavily on basic profit-and-loss sharing models such as Mudaraba and Musharaka, as well as trade-based instruments like Murabaha. Over time, however, the product range expanded significantly to include more sophisticated tools. Many studies highlight the transformative role of Sukuk in mobilizing large-scale capital for government and corporate projects. As noted by Hassan et al. (2023), “Sukuk instruments expanded the financial and investment capabilities of Islamic banking institutions” (p. 26). Recent literature also points to the rise of Islamic derivatives, structured financing arrangements, Shari’ah-compliant investment funds, and digital Islamic banking platforms (Nengsih et al., 2022). In several countries, such as Indonesia and Malaysia, Islamic banks have also developed specialized financing models for small and medium enterprises (SMEs), agriculture, home financing, and infrastructure development (Aisyah et al., 2025). This growing product diversity has enhanced the strategic competitiveness of Islamic banks and allowed them to serve a broader range of clients and investment needs (Avdukic et al., 2024).

3.8 Broader Socioeconomic and Sustainability Impacts

The reviewed articles also examine the wider socioeconomic and developmental contributions of Islamic banking (Djennas et al., 2016). Evidence from multiple studies indicates that Islamic finance encourages ethical investment behavior, supports financial inclusion, and contributes positively to sustainable development outcomes. As argued by Belabes et al. (2015), “Islamic finance promotes socially responsible investment through its emphasis on real economic activity and ethical constraints” (p. 15). For example, literature from Turkey, Indonesia, and select African economies suggests that Islamic banking correlates with improved income distribution, expanded access to financial services, and increased stability during financial downturns due to its assetbacked structures (Hassan et al., 2019). Other studies highlight how Islamic banking principles— such as risk-sharing, prohibition of harmful economic activities, and emphasis on social welfare— align with modern sustainability goals and responsible finance frameworks (Khan et al., 2019). Collectively, these findings demonstrate that Islamic banking’s impact extends beyond the financial sector and contributes meaningfully to broader economic and social transformation (Hassan et al., 2023).

4. Discussion

The evolution of Islamic banking represents a complex and interconnected process shaped simultaneously by religious doctrine, practical financial needs, and broader global economic forces (Hassan et al., 2023). The findings from the 30 articles reviewed through the PRISMA methodology demonstrate that the trajectory of Islamic banking cannot be understood through a single lens; instead, it is the product of multiple reinforcing dimensions - ethical, institutional, regulatory, technological, and socio-economic (Avdukic et al., 2024). This multidimensional growth pattern underscores the sector’s capacity to adapt, innovate, and expand while maintaining its foundational Shari’ah principles (Khan et al., 2019).

A major theme emerging from the reviewed literature is that the development of Islamic banking has been anchored in the quest to align financial activities with Islamic ethical and legal norms. Early conceptual efforts by Islamic scholars provided the theoretical blueprint for interest-free and risk-sharing financial systems, which became the philosophical foundation for subsequent institutionalization (Belabes et al., 2015). As noted by Sadiq et al. (2015), "Islamic economic thought offered the normative foundations upon which modern Islamic financial institutions were constructed" (p. 8). However, these religious principles alone were not sufficient to drive sectoral growth. The discussion across several papers highlights that the combination of faith-driven demand and pragmatic economic considerations created a fertile environment for experimentation and institutional development (Hanif et al., 2020).

Early models such as Mit Ghamr and Tabung Haji built public confidence by showing that Shari'ah-compliant banking could operate efficiently and competitively, thereby encouraging further investment and policy support (Hassan et al., 2019). According to Djennas et al. (2016), "the practical success of early Islamic banking experiments validated the feasibility of interestfree financial intermediation" (p. 12). The literature consistently emphasizes the important role of market demand in advancing the sector. Rising consumer awareness, demographic growth in Muslim-majority countries, and increased interest in ethical and socially responsible finance contributed significantly to the sector's expansion (Nengsih et al., 2022). These factors pushed financial institutions and governments to recognize Islamic banking not merely as a religious alternative but as a viable and commercially sustainable industry (Avdukic et al., 2025). As a result, Islamic banking evolved from a niche solution for faith-conscious consumers into a mainstream financial sector that attracts both Muslim and non-Muslim clients seeking transparent, assetbacked, and ethical financial products (Hassan et al., 2023).

Another key insight from the reviewed studies is the central influence of regulatory evolution. Islamic banking's progress accelerated considerably once countries introduced supportive legal frameworks, standardized Shari'ah guidelines, and formal governance structures (Zawawi et al., 2014). The establishment of regulatory organizations such as AAOIFI and IFSB enhanced the credibility, comparability, and international acceptance of Islamic financial products. As emphasized by Hassan et al. (2023), "regulatory harmonization through AAOIFI and IFSB significantly strengthened the institutional legitimacy of Islamic finance" (p. 21). These bodies played a transformative role by developing accounting standards, risk management guidelines, and Shari'ah governance systems that reduced inconsistencies across jurisdictions (Khan et al., 2019). According to several articles, this harmonization encouraged cross-border financial flows, facilitated global Sukuk issuance, and strengthened the overall stability of Islamic financial markets (Avdukic et al., 2024). Thus, regulatory institutionalization is recognized as a foundational pillar supporting the sector's long-term growth (Hassan et al., 2019).

Product innovation also emerges as a central driver of Islamic banking's evolution. The sector's ability to expand beyond traditional profit-and-loss sharing contracts into more sophisticated instruments illustrates its adaptability to contemporary financial requirements (Hanif et al., 2020). The literature highlights innovations such as Sukuk, Islamic derivatives, SME-focused financing models, and digital Islamic banking platforms as turning points that improved the sector's competitiveness. As noted by Hassan et al. (2023), "financial innovation has enabled Islamic banks to align Shari'ah principles with modern capital market requirements" (p. 27). These advancements not only broadened the product range available to consumers but also integrated Islamic banking more deeply into global capital markets (Zawawi et al., 2014). Particularly in the post-2000 era, innovation has been closely linked to technological advancements and the rise of FinTech, which have enabled Islamic banks to modernize service delivery and respond effectively to changing consumer preferences (Nengsih et al., 2022).

A broader analysis of the reviewed articles also shows that Islamic banking is deeply intertwined with macroeconomic and socio-political developments (Belabes et al., 2015). In many countries, government initiatives, national development strategies, and economic diversification plans have actively promoted the sector. For example, the growth of Islamic banking in the Gulf Cooperation Council (GCC) states is closely tied to the region's oil-driven wealth accumulation and subsequent efforts to diversify financial systems (Hassan et al., 2019). Similarly, Southeast Asian countries such as Malaysia and Indonesia have utilized Islamic finance as a tool for enhancing financial inclusion, supporting SMEs, and promoting socio-economic mobility (Aisyah et al., 2025). These contexts demonstrate that Islamic banking's expansion is not merely a financial phenomenon but part of broader national development agendas (Avdukic et al., 2024).

At the same time, the discussion in the literature acknowledges persistent challenges that continue to shape the sector's developmental trajectory. Variations in Shari'ah interpretation across jurisdictions remain one of the most significant obstacles to achieving full global integration (Khan et al., 2019). Differences in legal frameworks, regulatory maturity, and human capital availability further complicate cross-border operations and industry standardization (Djennas et al., 2016). Additionally, while innovation has enabled growth, it also raises concerns regarding Shari'ah compliance, operational risk, and consumer understanding of increasingly complex financial products. Several authors argue that addressing these challenges is essential for sustaining longterm legitimacy and avoiding reputational risks that could undermine public trust (Hassan et al., 2023).

Despite these challenges, the overall thematic consensus among the reviewed studies is that Islamic banking has established itself as a resilient and increasingly sophisticated component of the international financial system (Avdukic et al., 2025). Its growth reflects an ongoing ability to adapt Shari'ah principles to contemporary financial realities while contributing to broader goals such as ethical finance, financial inclusion, and economic development (Belabes et al., 2015). The interaction between regulatory reforms, technological change, market demand, and institutional capacity has created a robust ecosystem capable of supporting further expansion (Hassan et al., 2019). So, the progression of Islamic banking is best understood as an evolving and dynamic interplay between religious values and modern financial imperatives. The PRISMA-based review confirms that Islamic banking's development is both historically rooted and forward-looking, built on strong conceptual foundations but continuously shaped by economic, regulatory, and technological trends (Hassan et al., 2023). As the sector continues to mature, its capacity to address remaining challenges and embrace innovation will determine its future trajectory and global significance (Avdukic et al., 2024).

5. Conclusion

The historical development of Islamic banking demonstrates a steady and deliberate transition from small, faith-driven experiments in the 1960s to a structured and globally recognized financial industry (Hassan et al., 2019; Djennas et al., 2016). The synthesis of the 30 scholarly articles reviewed through the PRISMA methodology shows that this growth has been anchored in multiple, mutually reinforcing factors (Avdukic et al., 2024). Doctrinal foundations provided the intellectual and ethical basis for interest-free and asset-backed finance, while early institutional experiments proved that Shari'ah-compliant financial operations could function both efficiently and commercially (Belabes et al., 2015; Hassan et al., 2019). Economic forces including rising consumer demand, increased liquidity in Muslim-majority regions, and the global search for ethical financial alternatives further accelerated expansion (Faye et al., 2013; Nengsih et al., 2022). At the same time, regulatory developments and the work of standard-setting bodies played a crucial role in strengthening governance, reducing market fragmentation, and enhancing the credibility of Islamic financial products (Khan et al., 2019; Hassan et al., 2023). More recently, deeper integration into global markets and steady technological innovation have allowed Islamic banking to diversify its product offerings and compete effectively with conventional institutions (Avdukic et al., 2025; Aisyah et al., 2025).

So, the literature illustrates that Islamic banking is no longer a peripheral or regionally confined model but a dynamic and increasingly influential component of the international financial system (Hassan et al., 2023). As global markets continue to prioritize transparency, ethical conduct, and risk-sharing approaches, Islamic banking is well-positioned to sustain its upward trajectory (Sadiq et al., 2015; Khan et al., 2019). Continued progress, however, will depend on addressing the challenges identified in the literature, including regulatory inconsistencies, limited liquidity management infrastructure, and human capital shortages (Djennas et al., 2016; Hanif et al., 2020). Strengthening these areas will be essential for ensuring long-term resilience, expanding crossborder integration, and supporting the sector's continued global relevance (Avdukic et al., 2024).

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