

Abstract

Islamic Financial Institutions serve as a substantial potential opportunity for the Australian economy given the steady growth of the Islamic banking, its closeness to the 60% of the Muslim who reside in the Asian countries and Australian Federal Government's 'Asian Century Strategy'. Though Islamic financial institutions have expanded significantly over the recent two decades in Australia, they face a laissez faire market, which failed to address their particular regulatory needs. Operating in a conventional banking favoured environment without special regulatory treatment, the Islamic financial institutions may give in to competition at the risk of jeopardising Shari'ah compliance in Australia. Taking a risk-based perspective, a responsive regulatory system is developed, incorporating self-regulation such as the IFSB Standards, a black-letter laws and the hybrid, responsive to the business characteristics and corporate governance. A Seven-stage model was also developed to operationalise the responsive regulatory framework. This study may shed light on the development of Islamic Financial Institutions to be introduced into a new market in the advanced economies similar to Australia.

Keywords: Responsive regulation, Islamic financial institutions, case study