

ABSTRACT

The interest in Islamic finance in Korea has rapidly increased since the 2008 global financial crisis which was caused by unprecedented level of financial leverage. Hence, many are interested in the effective implementation of Islamic finance as they believed that it can contribute to a more stable and sounder financial market.

This study explores the issues and challenges in introducing Islamic finance in Korea and discusses the practical insights for the relevant parties such as the regulatory body and market players through a qualitative-based study. An interview method was adopted to gather the views of the key players in the industry who are involved in Islamic finance in Korea and globally.

It was found that the biggest challenge in introducing Islamic finance in Korea is its legal environment. The analysis highlighted that the non-banking institutions under the Special Credit Financial Business Act could be recommended to facilitate the introduction of Islamic banking in its initial stage. It is also proposed that the Asset-Backed Securities Act can be utilized to issue *sukuk* in Korea as it is able to deal with critical issues of defining *sukuk* and ownership transfer. The findings identified that the market risk such as currency risk, which confronting the issuers in issuance of *sukuk*, may be mitigated with the conventional derivatives in Korea depending on the availability of *Shariah*-compliant derivative.

It is also critical for the Korean regulatory body and its associate to make efforts in creating awareness among the market players and the public to facilitate the regulatory or legislative changes for the smooth implementation of Islamic finance in Korea.

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