THE CASE FOR REGULATORY ACCOMMODATION OF ISLAMIC BANKING AND FINANCE: BANKING THE UNBANKED

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By

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ABSTRACT

Islamic Banking and Finance (IBF) is based on the ethical principles prescribed in the Quran and the teachings of Prophet Muhammad. After the fall of the Ottoman Empire and with the advent of Western colonialism, Islamic finance was replaced by the conventional banking system. IBF re-emerged in the early 1970s as one of the fastest growing financial sectors to meet the financial needs of the Islamic world. Despite the rapid growth of Islamic banking and finance, its expansion remains insignificantly small at only 2% of global banking assets.\(^1\) The majority of Muslims are unbanked because, among other reasons, conventional banking is not compatible with their Islamic principles. I examine eleven Islamic countries that have tailored their regulatory frameworks to accommodate IBF in order to assess whether such tailoring has led to increases in the financial inclusion

of Muslims in these countries. I selected a mixed methods research design due to the complexity of my research topic, the social impact of religion in Muslims’ daily financial practices, and lack of extensive empirical IBF financial inclusion research studies in this area. The research analysis results, in general, support my theory’s assertions and confirm that regulatory accommodation of Islamic banking and finance leads to an increase in Muslims’ financial inclusion.
ACKNOWLEDGMENT

This thesis fulfills my commitment, to a certain extent, to a promise that I made many years ago to my mother, who instilled in me the values of equality, justice, and inclusion. You encouraged me to break through the social barriers, shatter the glass walls, and be the voice of those who have been excluded. To you, equality, justice, and inclusion were not mere lofty or theoretical words. As a child, I grew up watching you fight for these values in all aspects of your life. You are my role model, my inspiration, and my rock. I am forever thankful for being your daughter.

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a dynamic intellectual; your DLS leadership kept me going through very difficult times. You helped me renew my resolve, energy, and focus such that I was able to keep going and finish this work with your excellent guidance and leadership. Professor Shakir Ulah, your expert knowledge in Islamic banking is invaluable. I am very fortunate to have had your support and guidance. You bring forward a wealth of knowledge and expertise in Islamic Banking and Finance that are greatly needed in the United States. Your expert guidance, attention to details, and thoughtful feedback was invaluable to my progress. Dr. Hulusi Inanoglu, I am honored to have worked with you. Without your support, this process would have been much more challenging and would have taken me more time to structure. I am forever thankful for your kindness, intelligence, and thoughtful leadership. Binesh Hass, you are a kindred spirit. Your help with reviewing my work was invaluable. Adaku Uchendu, you are an amazing assistant. I am very grateful for your support.
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<tr>
<td>AAOIFI</td>
<td>Accounting and Auditing Organization for Islamic Financial Institutions</td>
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<td>CB</td>
<td>Conventional bank</td>
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<tr>
<td>GCC</td>
<td>Gulf Cooperation Council</td>
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<td>IB</td>
<td>Islamic bank</td>
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<td>IBF</td>
<td>Islamic Banking and Finance</td>
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<td>IDB</td>
<td>Islamic Development Bank</td>
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<td>IFI</td>
<td>Islamic financial institutions</td>
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<td>IFSB</td>
<td>Islamic Financial Services Board</td>
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<tr>
<td>IMF</td>
<td>International Monetary Fund</td>
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<tr>
<td>MENA</td>
<td>Middle East and North Africa</td>
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<td>OIC</td>
<td>Organization of Islamic Cooperation</td>
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<tr>
<td>PLS</td>
<td>Profit and loss sharing</td>
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<tr>
<td>SPV</td>
<td>Special-purpose vehicle</td>
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<td>SSB</td>
<td><em>Shari’ah</em> Supervisory Board</td>
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INTRODUCTION

Although it is a newly emerging and highly fragmented banking sector, Islamic Banking and Finance (IBF) is growing and is expected to continue to do so in the near future. IBF is constrained by the principles of the Islamic Shari’ah. It promotes risk sharing, the rights and duties of individuals and society, social justice, and the sanctity of contracts. The Islamic financial system is not limited to banking. It also includes capital formation, capital markets, and many other different types of financial intermediation and risk transfers.\(^1\)

According to the Islamic Financial Services Board (IFSB) Islamic Financial Industry Stability Report 2017, IBF’s total size, including its three main sectors (Islamic banking, capital markets, and Takaful) is estimated to be $1.89 trillion by the end of 2016.\(^2\) The report notes that IBF has achieved domestic systemic importance in twelve jurisdictions.\(^3\) The report considers IBF as being systemically important when the total Islamic banking assets in a country comprise more than 15% of its total domestic banking sector assets.

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\(^3\) Ibid., 8.
Despite rapid growth in recent years, IBF’s expansion remains comparatively small at only 2% of global banking assets.\(^4\) Lorraine Ocampo, IMF analyst, posits that a number of factors explain this low financial diffusion, including a less developed financial infrastructure that limits the capacity of Islamic banks, a regulatory framework adapted to support conventional finance institutions, and a lack of bank personnel trained in Shari’ah-compliant instruments.\(^5\) Additionally, the Islamic world still has one of the lowest rates of financial inclusion. Muslims cite religious beliefs as the primary reason for their self-exclusion from the financial system.

According to the World Bank, “Two billion people—or 38% of adults in the world—do not use formal financial services, and 73% of poor people are unbanked.”\(^6\) Muslim countries have the highest rates of poverty in the world. The Middle East and North Africa (MENA) have about 70 million of the world’s poor, who live on less than two dollars per

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\(^5\) Ibid.

day.\textsuperscript{7} The area also has one of the highest unemployment rates in the world for people over fifteen years old, a staggering 40.89\%\textsuperscript{8}.

Increasing Muslims’ financial inclusion is essential because of its potential ability to reduce poverty and spur economic prosperity in the Islamic world. Expanding financial access to Islamic banking services requires regulatory accommodation and tailoring of the conventional regulatory framework. Because the conventional framework is adapted to an interest-based banking system, its products are incompatible with Islamic faith values, which prohibit the use of interest. In this study, I examine Islamic countries that have accommodated the operation of Islamic banking and finance to assess whether such accommodation has led to an increase in Muslims’ financial inclusion.

Significance of this Study

One of the factors that adversely impacts the growth and competitiveness of IBF is that the conventional financial system uses a regulatory framework adapted to interest-based finance institutions. My study emphasizes the importance of the role that regulatory authorities play in supporting the dual operation of conventional and Islamic banking systems. The role of a regulatory and supervisory authority is to ensure a safe and sound financial system that provides equal access to financial services to all members of the

\textsuperscript{7} Amin Mohseni-Cheraghi, "Islamic Finance and Financial Inclusion: A Case for Poverty Reduction in the Middle East and North Africa?" \textit{The World Bank}. August 8, 2013.

community. Banking regulations that do not accommodate IBF limit Muslims’ ability to access financial services compliant with their faith values. My study demonstrates the importance of tailoring supervisory regulations to accommodate the operation of an equal-access banking environment to support Muslims’ financial inclusion.

My goal is to contribute to the body of research that examines the impact of regulatory accommodation of Islamic banking and finance on Muslims’ financial inclusion. I demonstrate that regulatory tailoring of Islamic banking and finance would lead to an increase in the financial inclusion of Muslims. Such expansion supports economic growth and alleviates poverty, high rates of unemployment, and lack of financial inclusion.

This study facilitates an interdisciplinary dialogue among banking and supervisory regulators, bankers, Shari’ah scholars, Muslim consumers, and researchers to encourage building common ground in the financial system such that a balanced and well-informed understanding of IBF might be developed. An improved understanding of IBF is crucial to sustaining a more resilient, safe, and sound financial system.

Methodology

The methodology for analyzing data collected for this study is a mixed methods research design. This method is best suited for exploring complex research problems with a combination of quantitative and qualitative research methods to benefit from the strength
each method offers and to overcome research weaknesses.\(^9\) For the qualitative component of this study, I will use the case study research method because it sheds light on multiple and subjective points of view in context as perceived by the Muslim participants who are in the scope of the case study. For the quantitative component of this study, which is composed of banks’ financial statements analysis and online surveys of Muslims all over the world, I use descriptive research methods to examine correlation relationships between Islamic banking and financial inclusion.

Using a convergent parallel research design under the mixed methods research design, I compare and contrast the results of the quantitative and qualitative research results to validate the research assumptions and to examine whether regulatory accommodation of IBF and having access to IBF has led to increases in Muslims’ financial inclusion.

Scope of this Study

This study includes a quantitative research assessment of 65 Islamic banks operating in 11 Islamic countries. I use online SurveyMonkey survey instruments to capture financial inclusion input from 357 Muslim consumers and from 41 bankers and regulators regarding regulatory accommodation of Islamic banking and finance. The online surveys could not reach low-income or Muslims who do not have access to the internet. Most of the respondents of the online survey are highly educated professionals. In order to

include the perspective of poor Muslims who do not have access to the online surveys, this study includes an Arabic version of the survey using paper-and-pencil instruments and face-to-face interviews to gather their input. Lastly, to complement the survey instruments, I conducted in-person interviews with 29 Muslims who live in Jordan for the qualitative use case research.

For the purpose of this study, anyone assigned with duties to ensure the safety and soundness of the financial system is referred to as a “regulator.” This category includes banking examiners, policy makers, economists, and consumer protection officials. The term “banker” is used to refer to the Bank Board of Directors (BoD), bank officers, and bank managers. The term “Shari’ah scholar” refers to certified experts conversant in Islamic law who are engaged in reviewing and assessing IBF compliance with Shari’ah. The term “consumer” refers to Muslims who use banking services. The term “researcher” refers to subject-matter experts conversant with Islamic banking and finance who have published academic scholarly works on Islamic banking and finance. These five categories will be used to describe the case studies and the sources from which the research data was collected.

Structure of the Study

This study is organized into three parts. The first part deals with the ethical values in Islamic economics that govern Muslims’ daily financial practices and decisions within the context of their historical evolution since the seventh century and the revival of Islamic economics since the early 1970s. The second part provides an overview of Islamic banking
and finance including a description of the financial instruments used in this form of banking and the standards-setting bodies and supporting organizations that guide the operation of Islamic banking and finance. The third part includes a description of the mixed methods research design, results of the study, and conclusions of the research analysis.

This research study is composed of the following chapters: chapter one provides a review of the ethical philosophical foundations in Islamic economics that impact Muslims’ financial inclusion. Prophet Muhammad prescribed a normative set of economic ethical values and mandated progressive economic reforms in his role as a prophet and statesman. These reforms and ethical values establish limits and rules that Islamic economics and modern Islamic banking and finance must follow. Chapter two provides an overview of the historical development of the Islamic economic system and its influence over modern Islamic banking and finance. This review is essential for setting the historical context, which influences Muslims in making their daily financial decisions. Chapter three addresses Shari’ah governance and regulatory accommodation of IBF. It also provides a description of the financial products offered by IBF and the standards-setting bodies that support IBF. Chapter four details the research design and methodology used in this study. Chapter five outlines the results of the qualitative research data drawn from the interviews with Muslims in Jordan as well as the quantitative data. I compare and contrast the results of the quantitative and qualitative research using a convergent parallel design to identify new insights and explain their implications for practical application. The conclusions section provides a summary of the research outcome, recommendations, and conclusions.
Summary

This thesis examines the impact of regulatory accommodation of IBF on Muslims’ financial inclusion. I examine financial inclusion in countries that have accommodated this form of banking and finance as well as Muslims’ daily financial practices and the role Islamic banking and finance could play in expanding Muslims’ financial inclusion.
CHAPTER 1

PHILOSOPHY OF ETHICS IN ISLAMIC ECONOMICS

Islamic banking and finance is an integral component of modern Islamic economics. In this chapter, I will provide an overview of Muhammad’s biography, ethical teachings, and economic reforms. Muslims consider Muhammad a role model whose daily life practices should be emulated and whose ethical teachings should be followed. Prophet Muhammad prescribed a normative set of economic ethical values and mandated progressive economic reforms in his role as a prophet and statesman. These reforms and ethical values are foundational to Islamic economics and modern Islamic banking and finance. They also have a significant impact on Muslims’ financial inclusion.

I will discuss the impact of ethical values in Islamic economics on Muslims’ financial inclusion. Then, I will argue that based on a Hegelian conception of freedom, it is important to accommodate Islamic banking and finance. I argue that universal access to financial services should be defended because it is a critical dimension of freedom in civil society. Lastly, considering the vital importance of financial inclusion, I emphasize the role of IBF in Muslims’ financial inclusion and the need for enabling a regulatory and policy environment that provides Muslims with useful and affordable access to financial services compliant with their faith values.
1.1 Muhammad’s Economic Reforms

Prophet Muhammad was born around 570 CE in Mecca.\(^1\) His father died before he was born, and he was placed in his grandfather’s care. Following the custom of many Meccan families who valued the independence of the nomadic way of life, Muhammad was sent for a year or two to live with a Bedouin tribe. Muhammad’s early formative years among the Arabian nomads imbued him with their moral code, social customs, and way of life. The moral code by which the Arabian tribes lived valued honor and kinship. It can be described as tribal humanism, which encompasses the manifestation of human excellence, honor, honesty, generosity, and fortitude.\(^2\) The embodiment of this moral code was the tribe itself, not the individual. The tribe ascribed these characteristics to the individual, and the individual was characterized by the qualities of his or her tribe. This moral worldview influenced Muhammad’s economic philosophy and reforms.

After returning to Mecca, Muhammad’s mother died. He was six years old. His grandfather died two years later. This placed Muhammad in the precarious social position of being an orphan, which at the time was a significant economic and social disadvantage, as orphans were not held in high esteem among the Meccan clans. At age eight, Muhammad was placed in the care of his uncle, Abu-Talib, who was the head of the Hashim clan. Although the clan was considered highly honorable, its fortunes had been declining.


\(^2\) Ibid., 49.
Meccan society was going through a rapid social transformation during Muhammad’s youth. Myrrh and frankincense trade caravans passed through Mecca, carrying with them spices and other precious goods that they exchanged for other goods in this trading hub. The enormous trade traffic provided wealth and prosperity to Meccan merchants, who acted as the middlemen. As the demand for myrrh and frankincense increased, so did their prices. As Meccan society amassed wealth and power, there was a corresponding shift in its moral perspective. In the transition from a nomadic tribal society to an urban mercantile society, the Meccans became more concerned with their own individual interests, not those of the clan. Weaker members of the Meccan clans such as the orphans, the poor, widows, and women suffered greatly from this social breakdown. Muhammad, having grown up as a poor orphan, was highly critical of the social breakdown in the moral values of Meccan society.

At a very young age, Muhammad started traveling with his uncle to Syria to run the clan’s trade caravans, and he thus gained experience as a merchant trader. He was known for his honesty and trustworthiness, as well as for his talent as a businessman. At age twenty-five, he married Khadijah al-Kubra, who belonged to a prominent and wealthy Meccan clan. Khadija, who is said to have been a forty-year-old widow when she married Muhammad, was one of the wealthiest and most powerful women in Mecca.

Meccan traders took their caravans to Damascus and Gaza during the summer and to Yemen during the winter. As Khadija’s husband, Muhammad ran the largest trade
operation in Mecca.\textsuperscript{3} He was thus well travelled and well versed in practical matters of finance, and he had expert knowledge in the various commercial contracts used in his time. Having been involved in trade since he was eleven years old, and having managed the largest enterprise of his time for over twenty years, Muhammad had an extensive knowledge of economic affairs. The economic reforms that Muhammad was to establish when he founded Islam were based on his own experience as a merchant and his moral perspective grounded in tribal humanism.

The political conditions during the height of his career as a Meccan merchant were in a state of upheaval. The Persian and the Byzantine empires were rivals competing to dominate the trade routes of Arabia. Their rivalry led to a series of wars during the second half of the sixth century, which had a strong impact on trade and economics and the political alliances in the Arabian Peninsula.\textsuperscript{4} Although the Meccan traders were more closely allied to the Byzantine Empire than to Persia, they had no interest in pledging allegiance to either power or to act as the proxy of either empire.

The Meccan traders were threatened by Muhammad’s religious teachings. The crux of the matter was not only religious but also economic and political. The Meccans benefited economically from the polytheistic Arabian pilgrims who flocked to Mecca to worship their deities as well as the regional deities permanently housed inside the inner sanctum of


\textsuperscript{4} Ibid., 4.
the Cube (Ka’bah). The Ka’bah is an ancient edifice built around a black meteorite that had fallen to earth and was considered sacred in ancient times; the edifice had been an important place of worship for generations. During the three holy months of pilgrimage each year, various tribes brought their idols to be placed near the Ka’bah. The pilgrimage and the ensuring festivities, poetry competitions, and celebrations brought in tremendous revenue to the Meccan economy. It was also symbolic of the great spiritual status of Mecca over the centuries.

Muhammad’s call for abandoning the worship of all idols incensed the Meccans, not only due to his disregard for their gods and worship rituals, but also because they were threatened with the loss of the pilgrimage revenues these idols brought to the Meccan economy. Consequently, Muhammad and his followers were openly attacked and persecuted by the leaders of the Meccan clans. Muhammad’s followers who did not have the privilege of clan protection fled to Abyssinia in 615 CE to freely practice Muhammad’s newly founded faith. Muhammad remained in Mecca under the protection of his own clan. The bonds of kinship and protection offered by the clans in Meccan society were being put to the test as many more followers began to join Muhammad’s religion.

Even though Muhammad’s moral philosophy embodied tribal humanism, his teachings call for social bonds not based on clans but on a universal Islamic faith that recognizes all humans as equal members of society. He was persecuted because of his

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teachings. Abu-Jahl of the clan of Makhzum, who conspired with the Meccan clans to apply economic pressure on Muhammad and his followers, led Muhammad’s persecution. In spite of this, Muhammad still had the protection of his powerful clan and the support of his uncle Abu-Talib. Although Muhammad’s clan did not embrace Muhammad’s religion, they insisted on giving him and other members of the Hashim clan support to freely practice their religion. In spite of repeated requests by the powerful Meccan clans led by Abu-Jahl to disown Muhammad, his uncle refused to yield to their demands.

Muhammad’s fortunes changed, however, when in 619 CE, he lost his wife Khadija, his uncle Abu-Talib, and ultimately the protection of his clan, which disowned him shortly after the death of his uncle. Fleeing assassination, he emigrated to Medina. Having been disowned and threatened by the Meccan clans, he understood the promise of transcending tribalism to create an Islamic community in order to ensure the security and economic welfare of all of its members. Muhammad settled in Medina and established a political community based on the “Constitution of Medina,” which he drafted to build an alliance between his Meccan followers and the Muslims of Medina. The Muslim members of this newly formed community were called the Ummah, and Muhammad acted as the clan chief.

Muhammad’s strategy was to not directly confront the Meccans. His policy was to weaken their trading with the Byzantines by preventing the movement of their caravans to
and from Syria. At the same time, he actively reached out to the surrounding tribes to build alliances. He established a pax-Islamica by forging alliances and expanding his sphere of influence in Arabia. His newly formed *Ummah* grew in numbers and in strength as he expanded his alliances through marriage and the promise of aid and prosperity to impoverished nomadic tribes. Drawing on his skill in administering large trade operations, he built a complex alliance of tribes.

In 628 CE, he announced that he would make a pilgrimage to Mecca with his followers. Alarmed and threatened, the Meccan clans promised to fight them. Muhammad camped at the edge of Mecca and negotiated the *al-Hudaybiah* treaty with the Meccan clans that year. The treaty included provisions for him and his followers to return the next year to perform the pilgrimage in Mecca, provided that they did not enter Mecca that year. Muhammad’s strategy was to accept these conditions and to return with an even stronger show of force the following year.

In 629 CE, he returned to Mecca with a much larger number of followers and performed the lesser pilgrimage as outlined in the *al-Hudaybiah* treaty. Many Meccans began to convert to Islam, including two highly talented and prestigious men of the clan of Makhzum and the clan of Sahm. Eventually, Muhammad’s followers grew in strength and numbers, as did his tribal alliances. The following year, he camped outside of Mecca with a significant military presence. He demanded that the Meccan clans discontinue the

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worship of idols and convert to Islam. The Meccan clans yielded to his demand, and he entered Mecca victoriously. He instructed his followers to abolish usury and issued an edict to forgive all Meccans who owed the Hashim clan usurious debts from their debt obligations. With this victory, Muhammad achieved his vision of replacing the bonds of the clan with a universal community of Muslims bound to each other through faith.

Muslims follow the teachings of Muhammad, and their Islamic identity is defined based on following his example. Muhammad called for living modestly, avoiding the use of interest, and eradicating poverty. As a statesman, he encouraged Muslims to engage in trade and fair market pricing practices, admonished greed, and prohibited fraud and speculation. He considered charity an obligation required of all capable Muslims. He instituted several Islamic social cooperation practices that aimed to redistribute wealth in Meccan society. He established a mandatory Zakah, the giving of alms to the poor and needy, required of all capable Muslims, as one of the five pillars of Islam. He opposed usury and challenged social inequity. He championed trade as a core economic activity and exhorted Muslims to practice fair and equitable labor compensation. Muslims’ daily financial practices are influenced, if not directed, by his social vision and ethical teachings. His economic reforms and expectations of ethicality in Islamic economics continue to influence Muslims’ economic behavior until this day.
1.2 Ethical Foundation of Islamic Economics

The ethical foundation of Islamic economics is based on Muhammad’s ethical teachings and reforms. Muhammad, who himself was raised a poor orphan, was determined to reform Meccan society to protect the less fortunate, ensure equality of economic opportunity, and abolish the use of usury. These reforms defined what it meant to be a follower of Muhammad in the early days of Islam and formed the basis for Muhammad’s Islamic civil society. The wealthy merchants of Mecca opposed these social and economic reforms and viewed Muhammad’s criticism and teachings as an attack on their way of life.\(^7\)

Muhammad’s economic reforms would not be considered a call for a socialist economic system. He did not exhort his followers to practice equal distribution of wealth. He encouraged Muslims to pursue trade as the core economic activity and insisted that just pricing and fair market contracts were the only legitimate path to economic prosperity. He used market trade contracts and honest trading based on just pricing to run his own trade very successfully. He encouraged his followers to pursue wealth and happiness within the boundaries of a free market that is constrained by an ethical normative behavioral framework.

The Islamic economic system is primarily designed based on three Islamic social principles, five axioms of faith, three ethical economic principles, and a set of economic

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religious prohibitions. These design features of the Islamic economic system outline the normative Islamic economic framework through which Muslims guide their daily economic decisions and behaviors. This normative framework outlines the following Islamic ethical principles of Muhammad’s economic reforms:

- The social system should have a balance between the rights and the obligations of individuals and of society.
- No individual should be denied equal opportunity for his moral, social, and material growth.
- No individual should be denied his basic rights and freedoms in society.\(^8\)

Muhammad set a number of fundamental axioms of faith. I will discuss five of the most important axioms of Islamic faith including: the Oneness of God (\textit{Tawhid}), the Prophet-hood (\textit{Nubuwah}), the agency of humans on earth (\textit{Khilafa}), the innate goodness of human nature (\textit{Fitrah}), and the ultimate Return (\textit{Qyama}) of all humanity to be judged based on the merit of their actions on earth.\(^9\) These axioms determine an Islamic economic worldview that is not secularist and not value-neutral, materialist, or social-Darwinist.\(^10\)

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\(^8\) Sayyid Abul A'la Mawdudi, \textit{First Principles of Islamic Economics} (Nairobi: The Islamic Foundation, 2011), 81-83.


These axioms of faith guide the value system through which economic interactions are executed in Islamic economics.

The *Tawhid* axiom compels all Muslims to protect the social well-being of all members of society. The consequence of this axiom commands that any economic action taken by an individual or a group should not be harmful to the interest of others, to society, or to the universe.\(^{11}\) The *Nubuwah* axiom is the belief that Muslims are required to follow the rules of behavior as set by Muhammad. The *Khilafa* axiom considers that all humans are born equal with free will and are entrusted by God on earth as His agents.\(^{12}\) Resources on earth are provided by God and must be safeguarded. Muslims do not have free license to plunder these economic resources as they wish.\(^{13}\) Islamic economics sets explicit criteria for what is considered *Halal* (lawful) and *Haram* (forbidden) to constrain economic activities. The *Fitrah* axiom considers that the innate human nature is good because humans have been created in the image of God Himself. It says in the Quran, “So direct your face toward the religion, inclining to truth. Adhere to the *Fitrah* of Allah upon which He has created all people” (*Quran*, 30:30). Because of this innate goodness, Muslims believe that humans are expected to make good decisions not only in their own self-interest but also in the interest of others. The *Qyama* axiom is the belief that all individuals will

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\(^{13}\) A'la Mawdudi, 61.
return to God on the final Day of Judgment, and that the world is simply a transient place. Muslims believe that the sum of the moral value of their actions determines their true well-being in the Hereafter.

These axioms structure a worldview perception in the Islamic world. The rules of behavior in the Islamic economic system impose constraints on human interactions based on an incentive structure inherent within them that demands that the Islamic economic system provide welfare to its community as duty, not charity.14 Although these axioms represent a general metanarrative from a philosophical perspective, they also explain the value and meaning of human behavior in Islamic economics.

In addition to these axioms, Muhammad brought forward three basic ethical economic principles during the early stages of the development of the Islamic state. These include: (i) the principle of economic moderation (I’tidal), (ii) the principle of economic efficiency, which prohibits waste (Tabthir) and excess (Israf), and (iii) the principle of social justice (Adala’ah). The principle of moderation stipulates that human behavior, be it economic or non-economic, should be exercised without extremism.15 The prohibition of waste and excess in Islam affects the Islamic economic treatment of production and consumption.


Reforming the economic system was a priority for Muhammad as Islam grew to be a powerful social and political force. In his last sermon on Mount Arafat, Muhammad outlined his economic vision, the ethical principles of which constitute the blueprint for today’s modern Islamic economic system:

O People, just as you regard this month, this day, this city as sacred, so regard the life and property of every Muslim as a sacred trust. Return the goods entrusted to you to their rightful owners. Treat others justly so that no one would be unjust to you. Remember that you will indeed meet your Lord, and that He will indeed reckon your deeds. God has forbidden you to take usury (Ribā), therefore all Ribā obligation shall henceforth be waived. Your capital, however, is yours to keep. You will neither inflict nor suffer inequity. God has judged that there shall be no Ribā and that all the Ribā due to `Abbas ibn `Abd al Muttalib shall henceforth be waived.

O People, listen to me in earnest, worship God (The One Creator of the Universe), perform your five daily prayers (Salah), fast during the month of Ramadan, and give your financial obligation (Zakah) of your wealth. Perform Hajj if you can afford to.16

Muhammad’s economic reforms condemned unethical manipulation of market pricing of goods and services through hoarding or monopoly. He rejected exploiting the labor of the poor or denying workers their earned wages. He emphasized the sanctity of contracts and the ethical necessity of offering fair compensation consistent with the prevailing market value. He also dramatically revised the laws of inheritance and reformed the prevailing inheritance practices such that women, too, were given a share of the

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family’s wealth. Islamic economics is designed with inherent features that aim to prevent economic inequities and to achieve social justice.\textsuperscript{17}

To achieve these goals, the Islamic economic systems restricts the pursuit of wealth based on the following most important prohibitions:

- **Usury (Riba):** the prohibition of interest on loans and the exchange of unequal quantities of similar fungibles such as metals.

- **Speculation (Gharar):** the prohibition of uncertainty and taking on business ventures without sufficient knowledge.

- **Forbidden (Haram):** the prohibition of investments in activities that do not adhere to Islamic *Shari’ah*.

- **Gambling (Maysir):** the prohibition of speculation, including gambling, betting, and wagering.\textsuperscript{18}

These prohibitions are the most widely used in Islamic economics literature to differentiate Islamic economics from other economic systems. Other prohibitions, although less prominently featured, are required to ensure the sanctity of Islamic finance contracts, including: (i) fraud (*Ghabn*), which means the prohibition of trading deception and/or unfair manipulation of market prices, (ii) coercion (*Ikrah*), which means the prohibition of coercion of a contract or a market price on an unwilling party, (iii) monopoly (*Ihtikar*), which means the prohibition of monopolies and the practice of hoarding supplies, essential

\textsuperscript{17} Chapra, *Morality and Justice in Islamic Economics*, 46.

goods, and services with the intent to benefit from the rise of their prices, and (iv) exploitation (Bay’ al-Mutadrr), which means the prohibition of exploiting social needs and charging excessively high prices.

Muhammad’s proscription of Riba was severe and is considered a very serious sin on par with incest and adultery. The prohibition of Riba is repeated multiple times in the Quran and the Hadiths as well as in Muhammad’s last sermon. Muhammad denounced not only the individual who offers Riba, but also its payer, its scribe, and its witnesses, all of whom he considered equal in the sin of Riba. All the penalties for Riba are described as consequences that take place in the afterlife, which include eternal damnation and absolute exclusion from God’s mercy.

Muslims cite the prohibition of Riba as the primary reason for their self-exclusion from today’s financial system. Riba deals with the exploitation of the poor through the use of exorbitant interest loans. Muhammad provided an extensive and detailed description of what he considered speculation (Gharar); he strongly proscribed all forms of speculative behavior and the manipulation of market prices.

Prohibitions in the Islamic economics system place a great emphasis on the sanctity of contracts and property rights as well as on protecting society from harm. While the Islamic economic system has a number of significant prohibitions, the centrality of Riba and Gharar play the most significant impact in the development of the modern Islamic

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19 Muhammad Umer Chapra, *Towards a Just Monetary System* (Leicester: The Islamic Foundation, 1985), 55.
banking and finance system. I will provide a detailed review of Riba and Gharar in the two following subsections because they are considered central ethical features in Islamic economics.

1.3 Prohibition of Usury (Riba)

Use of interest in banking (Riba) is one of the central reasons Muslims cite for excluding themselves from the conventional financial system. The Quran explicitly prohibits Riba. Devout Muslims avoid the use of interest in finance even at a cost. Millions of Muslims today are unbanked and do not have access to non-interest loans for home ownership or for starting businesses because they have self-elected not to engage in the conventional banking system because their faith prohibits Riba. According to Amin Mohseni Cheraghlou, a consultant at the World Bank, uneven access to non-interest-based financial services and instruments could be one of the reasons for the low number of bank accounts in the MENA region, which has the lowest percent in the world of adults who have accounts in formal financial institutions.20

In Arabic, the word Riba means increase, excess, or addition. Islamic jurists define Riba generally as “trading two goods of the same kind in different quantities, where the

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increase is not a proper compensation."²¹ Most contemporary Islamic jurists deny the existence of any uncertainty in the meaning or the scope of the term Riba. To them, the modern interpretation strictly prohibits the use of interest completely. Furthermore, the majority of Muslims worldwide equate interest with Riba.

*Riba* is based on four precepts in Islam: first, it is positive and fixed *ex ante*; second, it is tied to the time period and the amount of the loan; third, the payment is guaranteed regardless of the profit or loss outcome; fourth, the state’s legal system sanctions and enforces its collection. These precepts are accepted by all Islamic scholars today.²² There are two canonical forms of *Riba* recognized by contemporary Islamic *Shari‘ah* jurists, namely *Riba al-Nasiah* and *Riba al-Fadl*:

- **Riba al-Nasiah** deals with money-to-money exchanges in which an interest charge is required when the exchange payment is delayed. It is defined as an excess that results from predetermned *ex ante* interest that a lender receives above and beyond the original amount of the loan.

- **Riba al-Fadl** deals with barter exchange of commodities. Muhammad required the exchange of commodities based on their true and equal value. Because the commodities market trade no longer uses barter transactions, the relevance of this form of *Riba* has diminished.²³

Muslim scholars consider money a measure of value, not a store of value. Lending money with interest is prohibited because it generates money out of money without an


²² Askari and Mirakhor, *Introduction to Islamic Economics*, 93.

²³ Iqbal and Mirakhor, *An Introduction to Islamic Finance*, 57.
underlying tangible asset used in the buying and selling activity. This is considered an unjust act because it creates wealth without effort and does not spur real economic activity based on trade.

Islam considers two types of claims to property: first, the individual’s labor; second, exchange, remittance, grants, or inheritance. Lending money is considered a transfer of property right from the lender to the borrower. A lender can only claim the equivalent of the property right and no more as compensation. Charging interest transfers a right by the lender to the borrower’s property regardless of the outcome of the enterprise for which the loan is used. Instantaneous transfer of the borrower’s property right to the lender without any effort on the lender’s part or without setting up a profit-loss sharing agreement is considered unjust in Islam.

While critics of Islamic economics consider the absolute rejection of interest to be inefficient in today’s financial system, it is important to recognize that the rejection of interest is the dominant belief and practice in the Islamic world today. Therefore, the conventional financial system, even if more efficient, is not a practical alternative for devout Muslims. In my interviews and surveys, well over 80% of my respondents cited Riba as the main reason for their frustration and self-exclusion from the financial system.

\[24\] Ibid., 58.
1.4 Prohibition of Speculation (Gharar)

Gharar in Islamic economics is the prohibition of speculative trading in uncertainty. While the word Gharar is not explicitly mentioned in the Quran, related words such as deception, peril, risk, delusion, or hazard are mentioned. An Islamic judge from the eleventh-century Maliki school of jurisprudence defined Gharar as “that which has a pleasant appearance but a hated essence.” The temptation of easy money and the lure of speculative trading in uncertain financial activities is deemed a moral hazard in Islam.

The Islamic financial system is pragmatic, and exceptions are made based on the Haja (need) or the Darorah (necessity) principle. Therefore, the different schools of Fiqh in Islam have different levels of tolerance for uncertainty, especially during crises or times of need. Unlike Riba, the prohibition of Gharar is not easy to delineate because it requires subjective financial risk assessment based on social needs.

According to Ibrahim Warde, in today’s financial environment, Gharar is pervasive because it encompasses “deceptive speculative ambiguity, asymmetrical information and risk shifting strategies.” In today’s financial world, it has become increasingly difficult to understand the nature of the underlying financial risks. The lack of detailed market information and clear understanding of the nature of the underlying risks associated with

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26 Ibid.
27 Ibid., 57.
today’s complex financial instruments leads consumers, traders, and bankers to assume high levels of risk.

There is a very strong emphasis in Islamic economics on the prohibition of Gharar that addresses financial transactions that lack detailed information or are executed with the intent to deceive. An Islamic financial contract can be invalidated if proven to be deceptive or if it lacks detailed information that was required of all parties prior to engaging in a financial transaction. There are four Gharar conditions that are required to invalidate an Islamic financial contract: first, the speculation must be excessive; second, the damage must affect the principal component of the contract (e.g., the price of the object of sale); third, lack of a strong cost-benefit analysis; fourth, a social need that cannot be met otherwise.  

The Islamic financial system is highly risk-averse and conservative compared to the conventional system. The juristic discussion of Gharar, for example, is highly controversial, as it prohibits trading in excessive risk and uncertainty in business transactions. Gharar prohibitions require explicit financial risk management of uncertainty about price, quality, quantity of the counter product value, and the date of delivery of a product. Gharar mandates that the buyer and the seller must provide assurances to fulfill their commitments without imposing on either party an undue loss.

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Thus, the Islamic financial system explicitly prohibits excessive risks in financial transactions whose uncertainty could be harmful to all those involved. Speculative trading and its harmful effects on society are best captured by Stephen Zerlanga’s commentary on the stock market’s speculative behavior:

On a national level, the behavior of the stock exchanges in the late 1990s appeared to break free of any connection to the real world. As if by magic, wealth and power were quickly and effortlessly amassed and concentrated, as never before, into the hands of a small part of the populace. At the same time growing numbers of normal working people were placed under greater financial stress, falling behind into debt, or even bankruptcy.\(^{29}\)

From the Muslim point of view, the hazardous effects of a speculative and flawed money system are not limited to the devastating impact to economic stability but also to all aspects of human activity. A sound and just financial system is essential to making progress in all areas of civil society, including a standard of living that protects human dignity and freedom of choice.

1.5 Social Justice in Islamic Economics

The goal of Islamic economics is to ensure social justice, inclusion, and sharing of resources.\(^ {30}\) Islamic banking and finance, a core component of Islamic economics, addresses the issue of financial inclusion through use of non-interest and risk-sharing


financial instruments. In addition, Islamic economics requires redistributive instruments of wealth such as Zakah (purification), Sadaqat (charity), Waqf (endowment), and Qard-al-hasan (principal loans) to eradicate poverty. These instruments, which have strong historical and cultural roots, have been adopted and applied in the Muslim world over the centuries. They have a very strong potential, if implemented properly, to reduce inequality in Muslim countries that are plagued by massive poverty.31

Muhammad’s emphasis on generosity, his prohibition of the exploitation of weaker members of society, and his call for social kinship and protection of the orphans and the poor was a response to the moral decline of the Meccan elites. He had witnessed the breakdown of the Meccan nomadic tribal solidarity and the loss of the sanctity of fundamental social obligations. His reforms rejected the unscrupulous pursuit of wealth and self-interest. Muhammad forbade Muslims to amass wealth solely for themselves or to consider wealth a source of pride. He decreed that all Muslims should use their wealth to help the poor, care for orphans, feed the destitute, and provide for the weaker members of society. As condition of membership to the Ummah, he mandated that all capable members pay a welfare tax known as Zakah to provide for the poor and weak members of the Ummah.

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31 Ibid.
Modern Islamic economics is based on Muhammad’s teachings and the body of work developed by Islamic scholars who have studied Islamic economics over the centuries.\(^{32}\) While these scholars are not economists per se, the culmination of their interdisciplinary writing, which encompasses moral, social, political, historical, and psychological disciplines, provides a foundation for an Islamic economics system whose goal is to protect the well-being of all members in society. Several Islamic scholars, such as Muhammad Iqbal (1877–1938), A’ila Mawdudi (1903–1970), Syed Qutb (1906–1966), and Baqir al-Sadr (1929–1980), have argued that the goals of the Islamic economic system differ from the goals of Western capitalism.

However confident the tone of this early Islamic economics literature was, its corpus was nonetheless theoretical with no modern practical application in economics. It attempted to draw a significant contrast between Homo Economicus and Homo Islamicus. The term Homo Economicus dates back to the nineteenth century when John Stewart Mills first introduced it to describe “humans as economic actors whose rationality drive them to obtain the greatest number of necessaries, conveniences, and luxuries that have been produced based on the smallest quantity of labor and physical self-denial with which can be obtained.”\(^{33}\) Homo Economicus assumes that humans are primarily self-interested and


make economic choices based on efficiency and cost effectiveness.\textsuperscript{34} The term \textit{Homo Islamicus} describes Muslims as altruistic members of society who are instilled with Islamic values and commitments.\textsuperscript{35}

Muslim scholars developed this distinction to definitively delineate the difference between Islamic and conventional economics. However, according to Ibrahim Warde, the \textit{Homo Economicus} versus \textit{Homo Islamicus} contrast is no longer relevant in today’s modern Islamic economics.\textsuperscript{36} Modern Islamic economic thinking has evolved such that it recognizes economics at two levels: normative (what should be) rather than descriptive (what is). Islamic economists contend that this distinction is not as significant as originally has been perceived.\textsuperscript{37}

In addition, modern Islamic economic leaders defend free market economics on the grounds that it is how Islamic economics should function.\textsuperscript{38} Warde believes that there is

\begin{itemize}
  \item \textsuperscript{34} Irene C L Ng and Lu-Ming Tseng, “Learning to be sociable: The Evolution of Homo Economicus” June 4, 2017, \url{https://ore.exeter.ac.uk/repository/bitstream/handle/10036/32692/ng11.pdf?sequence=1} (accessed July 15, 2017).
  \item \textsuperscript{36} Warde, \textit{Islamic Finance in the Global Economy}, 44.
  \item \textsuperscript{38} Warde, \textit{Islamic Finance in the Global Economy}, 44.
\end{itemize}
excessive devotion to theoretical precepts, especially among “the free guardians of the dogma in both Islam and economics.”\textsuperscript{39} There is no such thing as a perfect equilibrium or perfect knowledge in free market economics, according to Warde. He considers those who view the Western economic system as a world of perfect competition, perfect market information, and perfect rationality no different in absurdity than those who paint a picture of perfect altruism and virtue in Islamic economics. He cautions against the “theoretical and ideological hubris that exists in both camps.”\textsuperscript{40} One must examine any given economic system’s success pragmatically through the lens of its accomplishments rather than through its normative theory, Warde asserts.

Contrary to claims that Islamic economics is not a viable system, the characteristics of the Islamic economic system do meet systemic criteria. The Islamic economic system provides a framework that supports the organization of economic decision-making arrangements, the use of pricing information, coordination of resources, rules for governing property rights, prohibitions that constrain the use of natural resources, protections to safeguard the sanctity of contracts, imperative use of just market pricing, and regulations that govern the laws of inheritance, as well as use of a number of incentive mechanisms to

\textsuperscript{39} Ibid.  

\textsuperscript{40} Ibid., 55.
govern the distribution of scarce economic resources. Mehmet Asutey, a scholar of Islamic economics, asserts:

In other words, since the Islamic economic system has a particular moral economic understanding which governs the production, consumption, exchange and distribution patterns and norms in a society through the principles derived and rules and laws established by that system ... it is normal that Islamic economics must be perceived as a system.\(^4\)

Islamic economics recognizes private ownership, profit motivation, and acknowledges free market forces. It requires open, fair, and just trade as the primary foundation for financial intermediation and exchange. It also sets explicit restrictions that prohibit unlawful economic behaviors and protect society from the unbridled power of the free market. Islam explicitly prohibits hoarding, exploitation, speculation, monopoly, and unlawful manipulation of market prices. In times of war or famine, for example, Islam prohibits taking advantage of social calamities in the pursuit of wealth.

Free will and rationality are central human values in Islam. Islamic economics relies on rational and free individuals to run efficient markets and maximize economic utility. Such reliance is not markedly different from that of conventional economics. Islamic economics does not call for abandoning Adam Smith’s free market economics, and it recognizes the role of the free market in the efficient allocation of resources. However, it does not consider free market competition sufficient for protecting society from harm.

To mitigate against the possible risks of such societal harm, Islamic economics sets explicit directives and prohibitions. These include explicit legal rules governing financial transactions, normative economic behaviors, and a list of prohibited financial transactions. Islamic economics requires that the state, corporations, and individuals protect social justice and provide for social welfare as a required duty, not charity. It also motivates individuals and corporations to strive to balance the spiritual and the material in the pursuit of wealth, not only for their own good but also to prevent the market from causing harm to society.\(^{42}\)

The need for protecting society from harm became evident during the financial crisis of 2008. The devastating social and economic consequences of this crisis highlighted the need for ethical values and building trust in the financial system. According to Ignazio Angeloni, a member of the Supervisory Board of the European Central Bank, there are many reasons to explain the financial crisis. However, Angeloni believes that all these reasons converge into one single ethical matter that is “primarily a crisis of trust.”\(^{43}\)

Trust is central to the public’s confidence in a safe and sound financial system because it engenders financial stability and guards against dysfunctional economic behaviors that are harmful to society. The theoretical goals of the design of Islamic


economics and Islamic banking and finance aim at protecting society from harm based on an Islamic moral worldview that stresses the importance of fostering trust and promoting social justice in the financial system.

1.6 Hegel, Islamic Economics, and Financial Inclusion

In this section, I argue that it is important to accommodate Islamic banking and finance because of the role it plays in Muslims’ financial inclusion. According to the World Bank, financial inclusion means that individuals and businesses have access to useful and affordable financial services. Financial inclusion is a priority for policy makers, regulators, and development agencies. The United Nations identifies it as an enabler to seven of its seventeen sustainable development goals.44 In the G20 Communiqué issued at the March 2017 meeting in Baden-Baden, the Finance Ministers and Central Bank Governors committed to advance financial inclusion worldwide.45 Financial inclusion is a key enabler of economic prosperity and is instrumental in reduction of poverty. The World Bank Group has put forward a global goal to achieve Universal Financial Access (UFA) by 2020.46

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goal reflects the universality and criticality of access to the financial system to advance global financial inclusion.

Accommodating Muslims’ access to financial services compliant with their faith values is an important enabler of their financial inclusion. Besides poverty and lack of education, religious faith values in Islam contribute to Muslims’ financial exclusion. The Islamic economic system prohibits Muslims from taking part in interest-based financial activities. Muslims cannot use interest loans to buy a home, car, or invest in interest-based financial products because of the prohibition of Riba (interest). Other faith values such as the prohibition of speculation (Gharar), emphasis on moderation (I’tidal), prohibition of waste (Tabthir) and excess (Israf), and the principle of social justice (Adala’ah) affect and constrain Muslims’ economic decisions and daily financial practices.

From a philosophical point of view, based on Hegel’s conception of freedom in civil society, I argue for an enabling regulatory and policy environment. Muhammad Yunus, Nobel Peace Prize Laureate, asserts that there exists a fundamental human right to credit, and in particular a right to microcredit by the poorest people to eliminate poverty.47 I argue that universal access to financial services should be defended as an expression of freedom in civil society. Such freedom ensures and protects the dignity of all members in the society. Muslims, as well as all members of civil society, have a right to access

47 Muhammad Yunus, “Nobel Lecture,” December 10, 2006, 
affordable and useful financial services. This right is an expression of their freedom and dignity.

Additionally, countries that have achieved the most progress have advanced an enabling and inclusive regulatory and policy environment.\textsuperscript{48} I argue that it is imperative for financial regulators to provide such an environment and to support the financial inclusion of all members of society, including Muslims. Regulatory accommodation of Islamic banking and finance not only enables alternative financial services compliant with Muslims’ faith values, but also encourages competition and innovation in the financial system.

\textbf{Hegel, Islamic Economics, and Freedom}

In order to set the context and philosophical foundation for my argument, I first provide a general overview of Kant’s philosophy to provide the background and context for Hegel’s conception of freedom in civil society. Then, I explain why this freedom is a universal human value whose core principle is that freedom is a right that must be equally available to all citizens in civil society.

Hegel and Kant are key figures in the German Idealism philosophical movement. Idealism posits that reality is knowable through consciousness and mental activities, and

its philosophical concepts date back to Plato (c.428–347 B.C). Plato was the student of Socrates and the teacher of Aristotle. German Idealism developed as a response to the Empiricism school of philosophy. In the eighteenth century, philosophy was dominated by the British empiricists such as Locke, Hume, and Berkeley.\(^49\) John Locke (1632–1704) was one of the most influential empiricists, who believed that all knowledge comes from sensation or from reflection.

Locke’s empiricism dominated England in the nineteenth century until the rise of Hegelianism in the last quarter of the century. Empiricism rejects the concept of knowledge as form. The Empiricism school of philosophy holds that “the origin of all knowledge is sense experience.”\(^50\) Empiricism is the view that all concepts are \textit{a posteriori}. This view implies that all human knowledge is based on sense experience. According to Russell, who was also an empiricist, Hume showed that “empiricism, carried to its logical conclusion, led to results which few human beings could bring themselves to accept.”\(^51\) Philosophers of German Idealism such as Kant and Hegel rejected the empiricists’ philosophy of human knowledge. In part, German Idealism, which developed during the Age of Enlightenment in the late eighteenth century, was a reaction to British empiricism and to Hume’s agnosticism.

\(^{49}\) Bertrand Russell, \textit{A History of Western Philosophy} (New York: Simon and Schuster, 1945), 730.

\(^{50}\) Ibid.

\(^{51}\) Ibid., 703.
Kant’s *Critique of Practical Reason* was published in 1778 and was followed by his *Metaphysics of Morals*, which was published in 1785. In these two volumes, Kant put forward two moral doctrines: the doctrine of right and the doctrine of virtue. According to Kant, a rightly constituted civil society is only possible when built on the doctrine of right such that freedom of the individual is in accordance with freedom of all. The role of the state is to protect and maximize this freedom and ensure the individual has the freedom to choose the right and exercise rational reason.

The role of the state, according to Kant, is not to enforce moral norms in a given condition or time based on needs or on human nature, but to protect individual freedom and to follow the Moral Law as revealed through reason. The role of the state in a Kantian world is to ensure freedom such that individuals can pursue what they believe fits their condition best within the limits of the law.

This right as freedom stems from a concept Kant refers to as the Moral Law. According to Kant, the supremacy of the Moral Law comes from its being adhered to by free moral agents who choose to follow ethical duty and obligation without any pressure or coercion from the state. Kant takes the position that human nature is not to be blamed for its being characterized as naturally good or naturally evil; rather, man himself is the free author of good or evil.\(^{52}\) He offers a descriptive modification of the character of man by rather saying (that by nature) man is either morally good or morally evil. Humans are

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free-acting agents and are accountable for their own choices to act in a morally good or evil manner. Kant asserts that man is his own judge of what is morally good or morally evil, and he is the only one who can judge for himself freely what is good or evil; man cannot cheat or bribe his own reason.\textsuperscript{53}

Kant envisions a union of humanity, living under the moral laws and establishing a universal ethical commonwealth.\textsuperscript{54} The idea of such an ethical-civil state is grounded in an objective reality that stipulates that it is man’s duty to join such a state. Kant compares the laws of the political commonwealth versus the ethical commonwealth and posits that the concept of the latter involves freedom from coercion.\textsuperscript{55} Kant posits that establishing an ethical society is humanity’s duty towards itself. He claims that the human race, as rational beings and in the ideal of reason, is bound to strive towards the social good. The promotion of the highest moral good cannot be achieved by a single individual but requires a just and good state to guarantee and protect its citizens’ freedom and dignity.\textsuperscript{56}

Hegel goes beyond the Kantian conception of freedom by offering his philosophical concept of historical progress as a dialectal process whose goal is to move societies closer towards a state of Kantian freedom. The Kant–Hegel relation continues to fascinate

\textsuperscript{53} Ibid., 72
\textsuperscript{54} Ibid., 86
\textsuperscript{55} Ibid., 87
\textsuperscript{56} Ibid., 89
commentators and those who assess Hegel via his relation to Kant. The assessment of the Hegelian philosophy against a familiar Kantian background is beneficial because it helps us locate Hegel in the broader philosophical tradition of German Idealism. The consensus among commentators on the Kant–Hegel relation presents Hegel as a figure who is trying to overcome what he considers problematic in Kant’s philosophy by taking it farther, or to “go beyond it,” as Hegel himself put it.

Hegel was born in Stuttgart in 1770. His father served in the court of the Duchy of Wurttemberg, and his relatives were either teachers or ministers in the Lutheran Church. Hegel was nineteen years old when the Bastille fell during the French Revolution. He highly admired the French Revolution and called it a glorious dawn. At the time, and during the Revolutionary wars, Germany consisted of more than three hundred states, duchies, and free cities loosely run by the Holy Roman Empire under Francis I of Austria. Napoleon put an end to this empire in 1806 when his army defeated Prussia at the battle of Jena. Hegel lived in Jena at that time. He was a huge admirer of Napoleon.

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58 Ibid.


60 Ibid., 115.
During the period of French power between 1806 and 1814, Germany went through reforms that abolished serfdom in Prussia and reorganized the government. After Napoleon’s defeat, King Frederick William III lost interest in reform. In 1819, the German states agreed to censor newspapers and periodicals and to oppress those who advocated revolutionary ideas. Interestingly, despite the censorship and lack of reform, from a cultural point of view, Hegel lived during the golden age of German literature with Goethe, Schiller, Novalis, Herder, Schleiermacher, and the Schlegel brothers as his contemporaries.

Hegel published his first major work, *The Phenomenology of Mind*, in 1807 while teaching at Jena. While working in Nuremberg as a school headmaster, he published *Science of Logic*, which appeared in three volumes in 1812, 1813, and 1816. He wrote the *Encyclopedia of the Philosophical Sciences* in 1816, in which he provided a brief description of his entire philosophical system. His work became well known, and his reputation was high enough that he was offered the chair of philosophy at the University of Berlin, which he accepted. During this period, he wrote and published the *Elements of the Philosophy of Right*. He taught at Berlin from 1818 until he died in 1831. Hegel’s influence, although it has diminished today, was very high during his time, not only in

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61 Ibid., 116

62 Ibid., 122
Germany but also in Great Britain and America. At the end of the nineteenth century, academic philosophers were largely Hegelian.\textsuperscript{63}

Hegel’s \textit{Philosophy of History} is central to the way he views the role of history in the human condition. Hegel believed that development through history is fundamental to changing the human condition. Hegel posits, in his work \textit{Philosophy of History}, that “the history of the world is none other than the progress of the consciousness of freedom.”\textsuperscript{64} To Hegel, the measure of the Right is freedom of the individual in a rationally ordered state. To Hegel, “reason lifts free people above the chance events” and “freedom cannot be fully achieved without critical thought and reflection.”\textsuperscript{65} Hegel believed that all the events of history eventually lead to the ultimate goal of freedom. This freedom is actualized when there is a diversity of individual ideas and the ability to develop different ways of living without coercion from the state or civil society. This Hegelian ideal, in my opinion, affirms the importance of regulatory accommodation of IBF because it preserves and protects diversity in a civil society.

In a civil society, freedom is not doing whatever one pleases. Hegel differentiates between “Individual Freedom” and “Abstract Freedom.” Hegel objects to considering

\textsuperscript{63} Bertrand Russell, \textit{A History of Western Philosophy} (New York: Simon and Schuster, 1945), 730.

\textsuperscript{64} Peter Singer, \textit{German Philosopher} (New York: Oxford University Press, 1983), 124.

\textsuperscript{65} Ibid., 129
freedom as unbridled or capricious individual choices made freely without consideration for duty and civil society because “individual choice, considered in isolation from everything else, is the outcome of arbitrary circumstances. Hence it is not genuinely free.”

According the Hegel, Will is freedom, and the Right is the absolute actualization of free will.

In his *Philosophy of Right*, Hegel posits that a rational free will finds its fulfillment when historical development processes spur progress in society through stages of evolution based on the institutions of family, civil society, and the state. Ethicality, from a Hegelian perspective, takes place when these institutions achieve their full potential and are fully developed. Hegel asserts in the *Philosophy of History* that “the state is the actually existing realized moral life,” and that all spiritual reality an individual has or owns is derived through the state. To Hegel, the state is the embodiment of rational freedom, the objective actualization of Freedom, and the expression of human Will. As such, a free will is not free until what it wills is identical with itself. Hence, free will is free when it wills freedom because only then the will is in and of itself truly infinite. Hegel’s freedom, from a

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66 Ibid., 140.


69 Ibid., 740.

70 Ibid., 740.
technical perspective, is the ultimate actualization of human will in a rationally ordered state.

Until the individual and the state arrive at this condition of freedom based on ongoing historical dialectical processes, they are both condemned to a state of alienation. Muslims who are excluded from the financial system suffer not only from lack of financial inclusion but also from a state of alienation. Regulatory accommodation of Islamic banking and finance is essential to removing this alienation. Hegel asserts that the "basis of right is spirit and its starting point is a Will which is free." The Right is the realm of actualizing freedom because the will is inherently free. The alienation of spirit occurs when it is no longer free. The spirit produces itself as will. According to Hegel, "the will contains the element of pure indeterminacy or of the pure reflection of the I into itself." Freedom manifests when indeterminacy and determinacy become one. Historically, this freedom comes forward to obliterate objective determinacy. Hegel says:

More concretely, this form appears in the active fanaticism of political and of religious life. Here belongs, for example, the time of terror of the French Revolution, when all distinctions of talent and authority were to have been suspended. This time was an agitation, an upheaval, a refusal to tolerate any particular, because what fanaticism wills is a specific abstraction, i.e., the utter absence of articulation: where distinctions develop, fanaticism finds them contrary to indeterminacy and suspends them. For this reason, in the revolution the people destroyed the

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72 Ibid., 20

73 Ibid., 23
institutions it itself made, because any institution is contrary to the abstract self-consciousness of equality.\textsuperscript{74}

Hegel described the transition process by which a universal becomes a particular as an “indeterminacy to the distinguishing, determining, and positing of a determinacy as a content and an object.”\textsuperscript{75} The particular is actualized through content that is either given by nature or is produced from the concept, according to Hegel. Realization of the universal and the particular is an abstraction of two moments in history. The moment of unity between the universal and the particular through the process of reflection is freedom. According to Hegel, “freedom this lies neither in indeterminacy nor in determinacy; it is both at once.”\textsuperscript{76}

Humans have an innate knowledge in themselves that they are willing beings who are free because they are the object actualization of will. This knowledge of the will through human consciousness and self-reflecting, however, evolves and develops into an awareness of the self. Humans have the possibility of becoming a person. This possibility is actualized only when “the individuality of freedom in pure being-as-self.”\textsuperscript{77} The person is the contradiction of the infinite and finite all at once. The person embodies the infinite and finite, the determinate and limitless, the abstract and the particular, the high and the low all

\textsuperscript{74} Ibid., 21.

\textsuperscript{75} Ibid., 21.

\textsuperscript{76} Ibid., 21.

\textsuperscript{77} Ibid., 41
at once in the same moment. Hence, the majesty of personhood is evident in its ability to sustain this contradiction. Individuality and diversity sustain the particular and the universal in that all human beings yearn to be free and to have freedom of choice regardless of their race, religion, or gender. The universality of freedom in civil society compels us to ensure that Muslims have access to financial instruments compliant with their faith values. In this act, the state demonstrates the actualization of the universal (freedom) through the particular (regulatory accommodation of Islamic banking). In my opinion, this unwavering respect and protection of individual freedom is what distinguishes civil society as such.

Hegel explains the rationality of property is that it suspends the subjectivity of personhood. It is the first moment at which a person “is as rational is in having property.”\textsuperscript{78} Ownership of property, according to Hegel, is the first expression of freedom in society and the first reality of abstract personhood. Owning property is an absolute human right, according to Hegel. The manifestation of personhood as free will is actualized through the right to own property. However, this right remains an abstract right because it is still concerned only in the personhood’s aspect of existence. The will of an individual becomes objective through the right to have possessions.

Property right is the will of the individual personhood and the determination of the individual being, according to Hegel. Individuals’ relations to their property and to their

\textsuperscript{78} Ibid., 44
community is what is rational in personhood, which is an abstract concept. Hegel does not consider equal distribution of property a matter of social justice. He posits that since nature is free, it is neither just nor unjust. Morality, however, requires that all humans have sufficient income for their needs. Hegel does not equate income equality with property rights. He also does not consider such equality part of the abstract right but rather a consideration of morality in civil society. Pursuit of wealth and accumulation of wealth depends on effort. All individuals must have an equal right to pursue and own property.

Hegel asserts that the economy is an ethical system with an important role to play in the promotion of freedom through the political and social systems. The influence of Hegel’s idea of moral historical progress presented a new way of seeing the world through the lens of rational mysticism. He presented a systemic philosophy that views all elements of reality “in process” with progress or history as a necessary rational structure for human development. Moral economic ideals such as justice, protection from harm, equality, and happiness are within the realm of the Hegelian dialectical development of practical moral reason.

From this perspective, I argue that Muslims whose faith values lead to their exclusion from the financial system have a right to access financial instruments compliant with their faith values. Regulatory accommodation of such instruments is essential for their dignity and freedom. The role of the state is to protect this freedom and enable access to

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79 Ibid., 49.
financial choices in a manner that preserves and protects human dignity and freedom for all of its citizens in civil society. This is a universal right that must be protected for all citizens in civil society.

**The Role of Islamic Banking in Muslims’ Financial Inclusion**

Financial inclusion is an important human value because of its positive impact on social equality and reduction of poverty. Financial inclusion has become an important area of concern because it plays an important role in economic and social development.\(^{80}\) According to World Bank financial inclusion research studies, 2.5 billion people still have no access to basic financial services.\(^{81}\) A great part of these people come from countries with a predominantly Muslim population.\(^{82}\) Financial exclusion, whether voluntary or involuntary, leads to persistent income inequality.\(^{83}\) A well-functioning financial system strives to expand financial access to all people to equalize financial opportunities. It also accommodates a wide range of financial options to enable broader access to finance.


\(^{81}\) Ibid., 3.


\(^{83}\) Ibid., 57.
In their research paper, “Can Islamic Banking Increase Financial Inclusion?” Sami Ben Naceur, Adolfo Barjas, and Alexander Massara analyze country-level information to assess the relationship between Islamic banking and finance and financial inclusion.84 Their research shows that several financial inclusion indicators in the Organization for Islamic Cooperation (OIC) countries are lower, and the share of individuals who cite religion as the reason for their financial exclusion is higher than in other countries.85 They conclude, therefore, that Islamic banking would be an effective avenue for increasing Muslims’ financial inclusion.

Studies show that financial depth, measured as the volume of a given financial service relative to gross domestic product (GDP), has a positive linkage with long-term economic growth.86 Countries that underperform in financial inclusion tend to have low financial depth.87 Studies show that increasing access to credit improves financial depth, which can lead to desirable economic results. These results include, but are not limited to, increases in entrepreneurship and reduction in poverty. Therefore, it is possible to posit that regulatory accommodation of IBF in Islamic countries could lead to increases in


85 Ibid., 2.

86 Ibid., 4.

87 Ibid.
financial depth by expanding Muslims’ access to credit options compliant with their faith values.

There are two types of financial exclusion: involuntary and voluntary. Involuntary exclusion encompasses the following factors: (i) structural factors such as the cost of financial services or geographical access; (ii) policy factors that could hinder competition in the financial sector or limit access to finance; and (iii) non-policy characteristics such as inflows of international remittances. Voluntary exclusion refers to individuals who opt not to use available financial services for a number of reasons. Financial exclusion in Islamic countries due to religious reasons tends to be high. Therefore, policies that would make available Islamic financial instruments could increase Muslims’ financial inclusion.

Islamic banking and finance tackles Muslims’ financial inclusion through offering faith-compliant financial instruments. The core principles of Islam lay great emphasis on Islamic social cooperation instruments such as Zakah, Kafalah, Quard al-Hassan, and Waqf. These financial contracts and Islamic social cooperation instruments provide Muslims who have voluntarily opted to self-exclude from the financial system due to religious reasons with a viable alternative to conventional interest-based financing.

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88 Ibid., 5.

89 Ibid.

These financial instruments are not new to the Islamic world. They have strong historical roots and have been used in Islamic communities for hundreds of years. Islamic banking financial contracts were replaced with interest-based conventional finance but have re-emerged in the early 1970s. Regulatory accommodation of Islamic finance instruments could lead to an increase in Muslims’ financial inclusion. This accommodation is important because of its positive role in eradicating poverty:

There is a growing realization that in addition to financial development, the emphasis should be to expand the accessibility to finance which can play a more positive role in eradicating poverty. Development economists are convinced that improving access and making basic financial services available to all members of the society in order to build an inclusive financial system should be the goal. Enhancing the access to and the quality of basic financial services such as availability of credit, mobilization of savings, insurance and risk management can facilitate sustainable growth and productivity, especially for small and medium scale enterprises.\(^9\)

Therefore, it is beneficial to expand the availability of Islamic banking and finance services in Islamic countries and to improve accessibility to Islamic finance instruments. My study supports expanding financial inclusion because it increases financial depth, which is indirectly linked with achieving desired economic outcomes such as equitable access to financial opportunities and the reduction of poverty. To this effect, regulators should accommodate Islamic banking and finance and develop policies to support Muslims’ access to faith-compliant finance instruments.

\(^9\) Ibid., 57.
CHAPTER 2

HISTORY OF ISLAMIC ECONOMICS

The aim of this chapter is to provide a brief overview of the historical development of the Islamic economic system and its influence over modern Islamic banking and finance. I will cover in this chapter the history of this economic system including its birth, decline, and recent revival.

2.1 Islamic State, Taxes, and Laws

Shortly after the death of Muhammad and between 632 and 661 AD, Muslims lived under the rule of the first four caliphs. The rule of these caliphs reflected asceticism and orthodox application of the teachings of the Quran.\(^1\) Several economic institutions were developed during this time, including Islamic taxation. Muslims were required to pay a per capita tax called Zakah, and non-Muslims were required to pay a per capita tax called Jizyah. The first caliph, Abu Baker, enforced the collection of these taxes to continue to provide social welfare by the Islamic state. The second caliph, Ummar Ibn al Khatab, instituted a state tax on land called Kharaj, which was imposed on the land that became subject to Islamic rule during the early days of Islamic expansion.

Muslim jurists on Ummar’s council were divided in terms of accepting the legitimacy and validity of the Kharaj tax. Ummar required that the land that came under

\(^1\) El-Ashkar and Wilson, *Islamic Economics*, 97.
the rule of the Islamic state through its expansion would remain in the hands of its original owners, but required that they pay property tax for the privilege of use of the land and military protection by the Islamic state. He justified the validity of the Kharaj tax because he believed that distributing conquered land to the Muslim warriors would turn the Islamic state into a feudalistic society.\(^2\) He used the revenues from the Kharaj tax to alleviate poverty and to fund the Islamic state’s welfare programs.

Ummar established another tax called the Ushur per capita tax, which he imposed on traders entering Muslim territories. All Muslim traders were required to pay this tax when crossing into non-Muslim territories. Therefore, he required all non-Muslim traders crossing the borders into the Islamic state to pay taxes as a percentage of the total value of their goods. Ummar considered poverty a danger to the state and a cause for conflict and instability.\(^3\) Therefore, the taxes he instituted were a security measure critical for ensuring social justice.

The Islamic state used its tax revenues to fund four types of expenditures: social welfare, state administration, military expenditures, as well as building state infrastructures such as roads, bridges, canals, and funding entrepreneurs who wished to start small businesses.\(^4\) In a letter sent by Ali Ibn Abi-Talib, the fourth caliph, to his newly appointed

\(^2\) Ibid., 111.

\(^3\) Ibid.

\(^4\) Ibid., 114.
governor in Egypt, Ali instructed him that the function of the government was to make the cities prosperous. He proclaimed that the obligation of the governor was to protect social morality based on the teachings of Islam, ensure justice, promote peace, and facilitate economic prosperity. He insisted that helping the poor was an obligation laid down by God and a core duty of the state.

The Islamic state continued to expand under the Umayyad dynasty, which successfully captured North Africa and extended its boundaries to Spain. By 751 AD, the Islamic state became an empire and took control of central Asia, thus removing political barriers across a vast territory. This Islamic expansion secured and developed trade routes as well as promoted Islamic economic development and reform.

The circulation of Byzantine and Persian currencies was still accepted in the Islamic empire. However, over time, the Islamic empire grew in size and complexity such that a central Islamic currency became necessary for supporting financial intermediations within the empire. In addition, the empire became large enough for its currency to be acceptable in the Byzantine and Persian lands. Under the reign of the Umayyads, Arabic coinage was first established by caliph Abd-al-Malik. He struck the Arabic golden dinar and the silver dirham in 695 AD. The establishment of standard Islamic currency across the empire affirmed the sovereignty of the Islamic state, provided uniform collection of taxes in

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5 Ibid., 121

6 Ibid.

7 Ibid., 134.
monetary units, and reinforced the importance of capable money changers who knew the value of money.

This monetary reform led to the emergence of early Islamic banking operations. At this time, financial instruments were created to facilitate financial intermediation including: an order of payment (Ruq’a), a promise of payment drawn on the money changer with whom the drawer had a deposit account (Sakk), and bills of exchange by which a debtor would transfer his own debt to his debtor or to another person (Hawalah). These financial instruments formed the basis for early Islamic banking design structure in the Islamic state.

2.2 The Islamic Golden Age and Expansion of the Islamic Empire

Between 750 and 1000 AD, the Islamic Empire continued to expand further east and west and reached its widest and most consolidated expansion under the rule of the Abbasid Dynasty. This period witnessed a large-scale development of Islamic urbanization and expansion of Islamic trade that stretched from India to Spain. The Islamic empire reached its zenith in what was called the Islamic Golden Age, when the development of the Islamic Empire’s culture, economy, and state administration reached its highest level of sophistication. During this period, the Islamic economic system thrived and the golden dinar became the currency of choice in the world of Islamic trade.

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8 Ibid., 135.
9 Ibid., 155.
As the Islamic Empire expanded and its governance matured by the tenth century, its *Shari'ah* rulings were further developed and consolidated under four different schools of jurisprudence (*Fiqh*). These schools were called *Madhahib*, named after their founders including the *Hanafi*, *Shafi*, *Maliki*, and *Hanbali*, which to this day dominate different regions of the Islamic world.\(^{10}\)

Specialized literature on Islamic economics and on economic issues began to appear during this period. Independent Islamic jurists began to publish their interpretations concerning running the affairs of the state, economics, finances, and taxation. It is important to note that these jurists were not in the service of the Abbasid caliphs or the branches of the Empire’s administrative offices; they were professional Islamic jurists and independent Islamic judges. The increasing complexity of running the Islamic Empire and the emergence of unprecedented economic realities led to further specialization in Islamic financial jurisprudence.

During the Islamic Golden Age, the body of Islamic financial laws known as the *Fiqh al-Muamalat* (jurisprudence of finance) matured and developed. It encompasses a comprehensive set of *Shari'ah* rulings that regulate interpersonal financial activities in the Islamic community.\(^{11}\) Islam holds individuals, not corporations, accountable for compliance with *Shari'ah* rulings. Therefore, the focus of the *Fiqh al-Muamalat* is on

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individual interpersonal activities and relationships. Hence, Islamic financial laws are based on a partnership model in which the *Fiqh al-Muamalat* guides personal financial behavior.

2.3 The Fall of the Empire and Fragmentation of the Islamic World

The Islamic Empire had its final blow at the hands of the Mongols. In 1258 AD, Baghdad fell after a twelve-day siege to forces led by Hulagu Khan. Caliph Al-Musta’sim was executed, the city of Baghdad was ransacked, and many of its inhabitants were massacred. The siege of Baghdad marked the beginning of the end of the Islamic Empire and the collapse of the Islamic Golden Age. Soon after the collapse of the Islamic Empire, the Black Death of the thirteenth century ensued, the Mamluk’s Dynasty disintegrated, and the Mongol Empire collapsed. These catastrophic events led to the fall of the ancient world system of international trade.

By the end of the thirteenth century and the beginning of the fourteenth century, the Islamic Empire fragmented into three new empires: the Safavid Empire, which became what Iran is today; the Moghul Empire, which became what is Pakistan and parts of India.

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13 Ibid.

today; and to the west, the Ottoman Empire.\textsuperscript{15} Each of these empires had an impact on the development of Islamic economics.

After a few centuries of military success, the Ottoman Empire began to decline due to a number of factors including: militarism, economic stagnation, the weakening of the central government, and the discovery of the Cape of Good Hope in 1498 AD.\textsuperscript{16} The Europeans began to trade directly with Asia using their newly established sea trading routes instead of crossing the Ottoman Empire.\textsuperscript{17} Thereafter, the Europeans took charge of world trade by controlling the routes with India and China. The Muslims’ spice trade was severely damaged when they lost their trade routes to the Portuguese.\textsuperscript{18} Eventually, a new Eurocentric economy and an interest-based financial system emerged and dominated the Islamic world during the nineteenth and twentieth centuries.

2.4 Colonization, Secularization, and Modernization of the Islamic World

The Islamic world was colonized by the West during the twentieth century. Colonization and the Islamic world’s encounter with the West promoted the secularization and modernization of the Islamic world and dismantled age-old Islamic institutions

\textsuperscript{15} El-Ashkar and Wilson, \textit{Islamic Economics: A Short History}, 285.

\textsuperscript{16} Ibid., 297.


\textsuperscript{18} El-Ashkar and Wilson, \textit{Islamic Economics}, 299.
including Islamic economics, political governance, and the education and legal systems. While under the influence of the colonial mandates, most Islamic Arab countries such as Egypt, Syria, Iraq, Libya, and Algeria pursued aggressive secular modernization policies because they believed that this was the shortest way to bridge the gap between their technologically and scientifically less developed countries and the West.  

The secularization of the Islamic world and the pursuit of Western modernism did not lead to the desired economic prosperity or to the coveted advanced technology and science in the Islamic world. Disillusioned Muslims began to call for the revival of Islamic political and financial institutions as an alternative to improve their economic and political conditions. New Islamic reform movements emerged, calling for the rejection of perceived Western cultural and financial domination. Fueled by discovery of oil riches in the Islamic world, and with the advent of petrodollars, the revival of Islamic economics and Islamic banking flourished in the early 1970s.

2.5 Revival of Islamic Banking in the Twentieth Century

The First International Conference on Islamic Economics, which was held in Mecca in 1976, signaled the revival of Islamic economics. Islamic research topics presented at the conference focused on attaining social justice and defining the meaning of Islamic

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19 Ibid., 320.


social solidarity. The conference participants emphasized the importance of addressing Riba and Zakah in monetary policy in Islamic economics. Scholars published studies concerning Zakah and taxation, the abolition of Riba, establishing interest-free banking, Islamic economics theory, Islamic economics development, and ethics in Islamic economics.

The topic of Zakah and the obligation of the state and individual Muslims to pay it as a tax instrument re-emerged because this tax is the third pillar of Islam. The subject of whether the state may or may not have the right to collect Zakah was controversial and provoked heated debates. The majority of Islamic countries today do not collect Zakah as a tax instrument or as a required tax from business enterprises or from their citizens. They leave it up to Muslim individuals and Islamic corporations to determine how much Zakah they are required to donate to the poor and whether to voluntarily dispense Zakah to the poor in their communities.

Yusuf al-Qardawi, a well-known Muslim jurist, recognized that Muslims needed guidance on Zakah. He wrote extensively on the topic and provided an easy-to-follow guide for Muslims to figure out how much is owed of them and of their enterprises. His book was published several times and translated into many languages. Another prominent Muslim jurist named Al-Fangari published his seminal study, “Islam and Social Security:

22 Ibid., 358.
A Comprehensively Concise Study of the Application of Zakah as a Tool to Achieving Islamic Social Solidarity. Al-Fangari argued that the obligation of the Islamic countries to provide Zakah to the poor is clearly stated in the Quran and the Sunnah. He asserted that an Islamic government that does not provide Zakah is rendered un-Islamic. These scholars provided a theoretical foundation for modern Islamic economics. By the end of the twentieth century, almost all of the Islamic countries enacted the laws of Zakah within their legislation.

The second most important topic that dominated Islamic economics in the second half of the twentieth century was Islamic banking and eradicating the practice of Riba in the Islamic world. The topic of prohibition of interest was examined extensively in relation to the role of banks and banking, as well as monetary policy. The first paper on interest-free banking was published in the Urdu language by Muhammad Nejatullah Siddiqui in 1969. An English translation was published in 1973 in Lahore by Islamic Publications Ltd. Historically speaking, Siddiqui’s Banking without Interest is considered the first book-length treatment published on the subject of Islamic banking.

23 Ibid.

2.6 Summary

Islamic economics and Islamic banking and finance offer the prospect of a progressive and pragmatic financial inclusion option genuinely welcome by unbanked devout Muslims. In his book, *Islam and the Moral Economy*, Charles Tripp, a scholar of Islamic political economics, presents a range of strategies developed in the Islamic world to remain true to their faith while engaging effectively with Western capitalism. He asserts that most Muslims aspire to participate in global capitalism without compromising their faith or Islamic identity. He coined the term “moral economy” to describe a newly emerging Islamic economic system that was established to replace the interest-based Western capitalistic economic order.25

Nevertheless, the Islamic world’s progress toward achieving the goals of the Islamic economic system and abolishing the use of interest-based banking is unfolding under very difficult political and economic conditions.26 Recent studies of the causes of unrest and instability in the Islamic world attribute lack of social justice, high unemployment, and income inequality as the primary factors for this unrest. The following factors are some of the important reasons for lack of social justice and instability in the


Middle East and North Africa (MENA) region according to a recent survey and study led by Cordesman et al. (2015) of the Center for Strategic and International Studies:

- Wealth distribution: unequal distribution of wealth and income fluctuations creates instability.
- Population growth: demographics threaten the stability of many MENA states.
- Poverty and cost of food: estimates indicate the region has an exceptionally high spending on food as a percent of total income.
- The energy curse: economics, demographics, subsidies, poor governance, and state barriers to effective investment and resource development make for a threat to energy export income and MENA stability.
- Ethnic, sectarian, and tribal differences: a clash within the civilization, not between civilizations, and conflict in the Arab and the Islamic world.
- Rapid social change, uncertainty, and risk: past social norms, social stability, and leadership elites often replaced by constant change in unstable, socially anonymous conditions.
- Excessive security, weak rule of the law, and sometimes repression: these problems threaten stability and often the regime as much as the people.\(^{27}\)

Islamic banking and finance has a promising potential in terms of providing these countries with a financial system that was part of the fabric of their Islamic history and culture, and hence it could play a critical role in increasing the financial inclusion of

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Muslims. However, Islamic banking and finance, while no longer a niche industry, remains fairly small and is not readily available to support the financial needs of millions of Muslims around the world. Further regulatory accommodations are needed in the Islamic world to develop, regulate, and operate this form of banking and finance.
CHAPTER 3

OVERVIEW OF ISLAMIC BANKING AND FINANCE

Islamic banking and finance (IBF) has become an important sector for Muslims who have excluded themselves from conventional banking due to religious reasons. It has also become a systemic banking sector in twelve Islamic countries. In this chapter, I will (i) provide a brief overview of the rise of this form of banking and finance, (ii) cover its Shari'ah governance and product offerings, and (iii) highlight key areas of development in its regulatory accommodation.

3.1 Modern Islamic Banking and Finance

Modern Islamic banking and finance re-emerged in middle of the twentieth century. The first Islamic bank, Mit Ghamr, was founded in Egypt in 1963 by a social activist, Ahmad al-Najjar. The key features of this cooperative bank were profit sharing and non-interest-based savings consistent with the principles of Shari‘ah. Mit Ghamr bank depositors could also obtain small loans. Additionally, Mit Ghamr invested in projects and shared the profits with the depositors. In 1971, Mit Ghamr bank was incorporated with Nasser Social Bank, a bank established by Presidential Decree 66 in Egypt.

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1 A banking sector becomes systemically important when its total assets in a country comprise more than 15% of the total domestic banking sector assets.

In order to accommodate the operation of this bank, the Egyptian government exempted it from the regulations it applied to conventional banks. The licensing and operation of this first Islamic bank in Egypt ushered a new era for the rise and development of modern Islamic banking and finance across the Islamic world. The regulatory accommodation of Islamic banking in Egypt encouraged other Islamic countries to adopt this form of banking.

Malaysia followed suit with the establishment of Pilgrims’ Savings Corporation Bank in 1963. Its original purpose was to provide financial saving options compliant with Islamic principles to help the Malaysian Muslim save Hajj funds without the use of interest charged by commercial banks. The practice of pilgrimage to Mecca (Hajj) is one of the five fundamental pillars of Islam. All Muslims are expected to perform the Hajj at least once in their lives if they have the financial means to do so. Setting aside savings for performing the Hajj is an essential financial need and practice in Muslim societies.

Soon after the Egyptian and Malaysian introductions of Islamic banking and finance, other Islamic countries began to develop and offer more advanced Islamic banking services. Dubai Islamic Bank was the first modern commercial Islamic bank in the Middle East established in the United Arab Emirates in 1977. Iran followed Sudan’s model and began converting its banking sector to an Islamic financial system in three phases, culminating with operating a full Islamic financial system in 1986 that continues to operate to this day.
With the advent of petrodollar economies, Islamic banking and finance began to rapidly grow and expand. The Gulf Cooperation Council’s (GCC) countries operate 41% of the total Islamic banking and finance world’s market share today. In 1975, the governor of Dubai, Sheikh Rashid al-Maktoum, issued a decree to establish the Dubai Islamic Bank, which is considered the first private Islamic bank. From there on, Islamic banking and Islamic banks began to expand rapidly around the world, culminating in the establishment of a global presence in 105 countries with an estimated $1.5 trillion in total Islamic banking assets in 2016, according to the IFSB annual stability report.

The development of Islamic banking and finance in the Asia-Pacific region is growing rapidly. The Muslim population in this region makes up about 62% of the region’s total population. Growth and use of Islamic banking in these regions is expanding in order to accommodate the financial needs of Muslims who are unable to use conventional banking due to their faith values. Malaysia, with its pioneering efforts in further developing and accommodating this form of banking, provided its Muslim population alternative financial options to invest in interest-free bank accounts. Similarly, Indonesia has actively engaged in developing and accommodating Islamic banking and finance since 1992 and

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4 Ibid.
has issued laws that promote and support this form of banking and finance. In Bangladesh, the Islami Bank Bangladesh was the first Islamic bank, incorporated in 1983.

In addition, Islamic banking offerings and options started developing in Africa. The Faisal Islamic Bank of Sudan was established in 1977 by a presidential decree with 40% Sudanese ownership, 40% Saudi ownership, and the rest was offered to the public. This bank was exempt from taxes and excused from some of the laws applied to other conventional banks in Sudan. In 1982, the Dar Al-Maal Al-Islami Trust Union was established in West Africa. Islamic financial institutions in Africa include: the Faisal Islamic Bank of Niger in 1983; the Islamic Investment Company of Niger in 1983; Faisal Islamic Bank of Senegal in 1983; and the Islamic Investment Company of Senegal in 1983. Libya in 2010 and Tunisia in 2017 followed suit in attempting to Islamize their financial systems. This trend continues, even in African countries with minority Muslim populations.

However, despite this rapid growth, access to Islamic banking services remains limited because most of the Islamic banking services are concentrated in metropolitan areas, are not accommodated in a number of Islamic and non-Islamic countries, and are not easily accessible by large Islamic populations who live in remote or non-developed parts.

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5 Ibid. 14.
6 Ibid., 19.
7 Ibid., 20.
of the Islamic world. According to the World Bank’s financial inclusion policy research analysis, Muslims are significantly less likely than non-Muslims to own a formal bank account or save at a financial institution. IBF’s newly developed Islamic products are not widely available to Islamic communities in a number of Islamic and non-Islamic countries.

3.2 Governance in Islamic Banking and Finance

Islamic banking and finance relies on the use a body of Islamic laws called *Fiqh Muamalat* (jurisprudence of finance) to govern the development and validity of its Islamic offerings. *Fiqh Muamalat* refers to “the Shari’ah rulings related to the interpersonal relationship between a person and others.” *Fiqh Muamalat* regulates mutual financial activities in the Islamic community. *Shari’ah* rulings in *Fiqh Muamalat* are the religious rulings concerned with practical matters. The following *Shari’ah* rulings under *Fiqh Muamalat* are fixed, which means that they are not subject to change or re-interpretation with the passage of time:

- mutual consent in contracts;
- fulfillment of contracts and conditions;
- prohibition of interest and usury;

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• prohibition of fraud;
• prohibition of hoarding;
• prohibition of injustice;
• provision of charity;
• protection of wealth; and
• equitable distribution of wealth.\textsuperscript{10}

\textit{Fiqh Muamalat} has four legal financial theories that underlie \textit{Muamalat} dealings.\textsuperscript{11} They include legal capacity (\textit{Ahliyyah}), theory of property (\textit{Mal}), theory of ownership (\textit{Milkiyyah}), and theory of contract (\textit{Aqd}). The theory of legal capacity addresses legally required conditions expected of the contracting parties when executing financial transactions; the theory of property discusses the nature and types of properties in Islamic jurisprudence; the theory of ownership covers the relationship between the owner and his or her property; and lastly, the theory of contract provides the framework for the structure of contracts in Islamic jurisprudence. These theories and their relationships are essential for assessing the soundness of Islamic financial contracts. Each theory sets clear definitions and expectations to all parties entering into a contract. These theories are also used to assess whether Islamic contracts are compliant with Islamic faith values.

\textsuperscript{10} Ibid., 4.

\textsuperscript{11} Ibid., 17.
The relationships between these four legal theories provides the context for Fiqh Muamalat in terms of its Shari’ah rules over financial activities, interpretation, and adjudication among contracting parties. The conditions and requirements prescribed in these four legal theories provide a foundation for addressing compliance of financial activities with Islamic values in sale contracts. Islamic products and service offerings are designed based on the structure of these four theories and are governed by rules and expectations set by these legal theories. Figure 1 illustrates the legal relationships between these four theories and their interdependence.12

![Diagram of legal relationships in Islamic sale contract structure]

Figure 1. The relationships between the four theories in Islamic sale contract structure.

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12 Ibid., 17.
Islamic banks rely on *Shari’ah* boards and *Shari’ah* experts who are versed in these four legal theories, *Fiqh*, *Muamalat*, *Shari’ah principles* and interpretation of Islamic laws. The role of the *Shari’ah* board in Islamic banking is narrowly defined and is limited to strictly providing advice regarding the adherence of Islamic banking products and operations to *Shari’ah*. It does not have any governance over the management of Islamic banks or their operations, however.

The IFSB standards on *Shari’ah* governance provide a clear definition of the meaning of *Shari’ah* governance and a set of operating principles to ensure uniformity and consistency of the operation of *Shari’ah* governance across Islamic banks. *Shari’ah* governance is, according to the IFSB, the set of agreements through which an Islamic financial institution (IFS) ensures that there is effective independent oversight in terms of *Shari’ah* compliance. According to the IFSB, *Shari’ah* governance oversight covers over each of the following structures and processes:

- issuance and dissemination of relevant *Shari’ah* juristic opinions on any matter pertaining to *Shari’ah* issues in Islamic finance;

- internal *Shari’ah* compliance review/audit for verifying that *Shari’ah* compliance has been satisfied; and

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- annual Shari‘ah compliance review/audit for verifying internal Shari‘ah compliance/audit has been appropriately carried out.14

Shari‘ah governance can be executed based on a number of alternative organizational structures or roles. The ISFB standards prescribe three distinctive roles in Shari‘ah governance including an independent Shari‘ah board, an Internal Shari‘ah Review Unit (ISRU), or external Shari‘ah review, and an Internal Shari‘ah Compliance Unit (ISCU). The operations of these distinct roles complement existing governance, controls, and compliance functions in Islamic banks and provide assurance and strengthen controls over Shari‘ah risks.

The need for an Islamic bank to appoint a Shari‘ah board or a Shari‘ah scholar to certify the bank’s products and operations are adherent to Shari‘ah is not required in a number of jurisdictions, not consistently mandated by banking regulations that require it, nor is it uniformly applied. However, all Islamic banks in practice do appoint either a Shari‘ah board or Shari‘ah scholars respected and acknowledged within the community to verify adherence to Shari‘ah. Many Islamic banks in most Islamic countries appoint their own Shari‘ah board or Shari‘ah scholar. Malaysia and Sudan central banks have central Shari‘ah boards at national level. Pakistan and Iran do not have Shari‘ah Boards that are

individually appointed to Islamic banks; instead, they have Shari’ah councils that provide guidance on Islamic banking.

Appointments for serving as a Shari’ah supervisor are given to individuals who are certified Shari’ah scholars who have experience in Fiqh al-Muamalat. Fluency in the Arabic language and ability to deal directly with Fiqh al-Muamalat’s legal texts and commentaries are considered essential qualifications. In addition, Shari’ah supervisors are expected to understand modern finance instruments, markets, and economics and to demonstrate solid understanding of international and comparative business practices. For this reason, fluency in the English language is necessary in order to better work with cross-disciplinary and cross-cultural teams. At present, the number of qualified Shari’ah supervisors is limited. This is considered one of the important challenges that may restrict realization of the full potential of IBF due to lack of ability to scale and expand operations driven by shortages in qualified financial Shari’ah experts.

Islamic Shari’ah supervision and governance is in its early development stages. Islamic Shari’ah supervisors face a steep learning curve. However, with the rapid adoption and expansion of IBF over the past thirty years, scholarly resources and standards are being made available to Shari’ah supervisors. Academic bodies have produced much literature on the topic of Islamic finance.
3.3 Islamic Financial Contracts

Unlike conventional banking, the financial products offered by Islamic banks are designed for the sharing of risk, profit, and loss with its customers and bank shareholders. In conventional banking, the risk is completely passed onto the borrower; the conventional bank protects its assets with collaterals and the credit worthiness of its borrowers. Additionally, profit or loss is passed on to the conventional bank’s shareholders.

The structure of financial reporting in Islamic banking and finance is not markedly different from that of conventional banking. The liabilities in Islamic banking are treated as equity accounts. Assets and liabilities differ in nature by the type of financial product being used; however, they both follow consistent accounting reporting standards. Islamic banking offers financial products and services that are classified either as assets or liabilities in the financial statement.

Islamic banking financial statements have the same structure as that of a conventional bank. The financial products offered in Islamic banking and their financial treatment from a legal perspective are different, however. The differences are as follows:

- Islamic banks own the asset either directly or via a special-purpose vehicle. They sell the asset directly to the buyer;
- Islamic banks’ investment contracts replace the borrower-lender relationship with a partnership arrangement;
- Islamic banks’ current deposits are similar to demand deposits in conventional banking; and
Islamic banks’ restricted and unrestricted investment accounts are similar to fixed deposits, except that they use a profit-sharing basis based on the performance of bank assets.15

A typical Islamic bank operating plan must include the following: first, the use of floating rates on assets (loans); second, the application of profit-sharing on liabilities (deposits); third, considering depositors as investors; fourth, the notion that all risks are shared with customers and investors; fifth, the notion that profit depends on the bank’s ability to manage risks and price according to expected return; and lastly, the requirement that risk premiums are factored into product pricing.

In Islamic finance and banking, equity-based financing provides the bank with the ability to directly participate in the business venture and to form partnerships and contracts with the investors and customers. The sanctity of an Islamic contract requires direct partnership and agreement in order to be binding. Islamic banks rely on equity-based financing and on sale of contracts to manage business operations.

Nominate Islamic financial contracts are a class of legal contracts that Islamic Shari‘ah gives standard legal names and detailed descriptions of their rules and stipulations to ensure compliance with the tenants of Shari‘ah. Nominate Islamic financial contracts play a critical and prominent role in classical Islamic jurisprudence and in Islamic economics. Islamic banking contracts dealing with business and commercial transactions

can be classified into four categories: transactional contracts, financing contracts, intermediation contracts, and social welfare contracts. This classification is based on the function and purpose of the contract. Figure 2 illustrates the structure and classification of common Islamic financial contracts.

Figure 2. Islamic contracts and instruments.

Transactional contracts facilitate the exchange, sale, and trade of goods and services. Transaction contracts support the sale of an asset (Bay’), exchange of currency (Sarf), and the sale of a right to use an asset (Bay’ al-Ijarah) and (Bay’ al-sistna’). Financing contracts create and facilitate credit and provide support for capital formation.

16 Iqbal and Mirakhor, An Introduction to Islamic Finance, 57.
They are used to finance trade (*Murabaha*), support asset-backed trade finance (*Ijrah*) or (*Ististana’*), and invest in equity partnerships (*Musharakah*). The distinguishing feature of financing contracts is that they do not include debt. Intermediation contracts facilitate execution of transactional and financial contracts. These contracts cover non-equity partnership (*Musharakah*), insurance (*Takaful*), fee-based services, including *Kifala*, *Ja’ala*, *Amanah*, and *Wikalalah* contracts. Social welfare contracts promote the well-being of the less privileged. These contracts provide microfinance (*Qard-ul-Hassan*) to the less fortunate and administer charity donations (*Waqf*) contracts as a community service.

**Islamic Equity Contracts**

Islamic equity partnership contracts are the most popular form of financial intermediation in Islamic banking and finance.\(^\text{17}\) They are used to build participation partnerships and allow the banks to engage in direct buying and selling activities with their partners. The following is a list of some of the most popular equity contracts in Islamic banking:

- *Murabaha*, or trade finance, is a cost-plus contract. Under this contract, the buyer requests the bank to purchase an asset or a commodity from a supplier. The buyer agrees to buy the asset or the commodity from the bank and accepts the bank charges associated with the transaction. The number of installments or price of the asset cannot be increased or decreased; however, a penalty can be agreed upon between the bank and the buyer in case of a default or failure to pay the bank promptly. In essence, the Islamic bank finances the sale of an asset or a commodity and adds a markup to the current price. *Murabaha* contracts are used mostly as an equity financial product for the wholesale market.

\(^\text{17}\) Ibid.
• **Musharaka**, or equity partnership, is a joint enterprise between partners. The literal meaning of the word in Arabic is “to share.” The partners (Islamic bank and client) agree to conduct business in which they share the profit and the loss according to a pre-agreed-upon ratio, while loss is shared according to the ratio of contribution. None of the partners guarantee the capital or profit share. The Islamic bank receives the investment deposits or capital from the investor and finances business ventures for profit and loss sharing.

• **Diminishing Musharaka** is a form of declining partnership generally used to finance real estate contracts. The buyer asks the Islamic bank to purchase an asset and sell it back to the buyer at a markup. The Islamic bank participates in the ownership of the asset by contributing required finance. Under this form of finance, one of the partners (the buyer) promises to buy the equity of the other partner (Islamic bank) gradually based on installments until the title to the equity is completely transferred to the buyer. Profits and losses are distributed and shared by the buyer and the bank based on agreed upon ratios. Diminishing Musharaka has successfully replaced conventional mortgages.

• **Mudaraba** is a type of partnership whereby skill and capital are brought together to conduct business. The capital provider agrees to cover the loss of the venture; however, both partners share the profit. Islamic banking savings account is an example of a Mudaraba product.

**Islamic Debt Contracts**

Islamic debt financing contracts are used for fixed-return financing based on a markup or cost-plus arrangement. The following is a list of some of the most popular debt contracts:

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18 Ibid., 175

19 Ibid., 174

• *Ijarah* is a rental agreement between the Islamic bank and the client. The ownership risks of the asset are assumed by the lessor (bank); however, the expense required to maintain the asset is covered by the lessee (client). At the completion of the leasing agreement, the asset is either returned to the bank or purchased by the lessee (client). *Ijarah* has successfully replaced the facility of leasing under conventional banking.\(^{21}\)

• *Istisna* is a sale contract used for financing infrastructure projects through an order to manufacture and/or supply. It refers to an agreement to buy and sell an asset to be created (manufactured) at a markup price (profit).

• *Bay Salam* is a sale contract in which an Islamic bank purchases goods for spot down payment with future delivery.\(^{22}\) This facility is used to finance agricultural needs.

The above Islamic contracts provide the most popular debt instruments used in Islamic banking.

**Islamic Fee-Based Service Contracts**

Islamic contracts do support fee-based service contracts as well. *Wikala* is a contract with an agent to facilitate trade operations. The Islamic bank acts as an intermediary or a financial agent on behalf of the customer for a fee. *Amanah* is a contract to place an asset in trust for a fee. The *Amanah* deposit is purely for safekeeping. The Islamic bank cannot use the asset under an *Amanah* contract. A *Jo’alah* contract is established to facilitate offering a service for a fee, such as asset management or professional services or wealth management. *Hawala* contracts facilitate transferring debt

\(^{21}\) Ibid.

\(^{22}\) Ibid.
from one person to another. Islamic banking contracts are rooted in a sophisticated tradition of trade and business partnerships.23

3.4 Regulatory Accommodation

A number of organizations have been established to provide support and advocacy for accommodating Islamic banking and finance. The Organization of Islamic Cooperation (OIC), which has a membership of fifty-seven states spread over four continents, was established in 1969. It acts as a collective voice and advocate for the Muslim world. In 1981, the Fiqh Academy was established under the auspices of the OIC. The Fiqh Academy’s Shari’ah scholars were asked by the OIC to review and provide advisory guidance regarding the legitimacy and compliance of financial transactions with Shari’ah. In 1974, the OIC established the Islamic Development Bank (IDB) to advance the development of Islamic banking and finance and support economic development in the Islamic world. The IDB is considered the first international Islamic bank established by members of the OIC to foster economic development and social progress of its members in accordance with the principles of Shari’ah.24 In 1978, the Center for Research in Islamic Economics was established at the King Abdul Aziz University in Jeddah, Saudi Arabia.

From the 1980s onwards, with the establishment of these supporting organizations, Islamic banking and finance began to experience rapid growth and expansion. Islamic

23Ibid., 95.

banking policy makers in the Islamic world recognized the need for Islamic banking accounting standards. Therefore, the Accounting and Auditing Organization for Islamic Financial Institution (AAOIFI) was established in 1991 in Bahrain. AAOIFI is a not-for-profit organization responsible for the development and issuance of standards for the global Islamic finance industry. It has issued well over ninety-four standards in the areas of Shari'ah, accounting, auditing, ethics, and governance.25 AAOIFI is supported by central banks and regulatory authorities, financial institutions, accounting and auditing firms, and legal firms, from over forty-five countries.

In 2002, the regulatory and supervisory authorities in the Islamic world, with the help of the IMF, established a regulatory agency called the Islamic Financial Service Board (IFSB) to address Islamic banking systemic stability and regulatory standards in the industry to serve as an international standards setting body of regulatory and supervisory agencies that have oversight over Islamic banking and are vested in ensuring the soundness and stability of Islamic banking and finance. The IFSB introduces new or adapts existing international standards consistent with Shari’ah principles.26 In 2005, the International Islamic Center for Reconciliation and Commercial Arbitration (IICRCA) was established through the IDB as an independent and not-for-profit organization to arbitrate and reconcile


settlement disputes regarding *Shari’ah* provision. The primary goal of the IICRCA is to settle financial and commercial disputes that may arise among financial institutions that operate according to *Shari’ah*.

The development of the Islamic banking industry has witnessed a very rapid expansion across the Islamic world such that almost every country has some form of Islamic financing to support the needs of its Islamic community. The rise and establishment of these organizations is important for ensuring the financial stability of the Islamic banking financial sector. Additionally, accommodating Islamic banking relies on the availability of standards-setting bodies to support the development and availability of Islamic banking and finance standards required for further evolution of this form of banking in a safe and sound manner.

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CHAPTER 4

RESEARCH METHODOLOGY

In this chapter, I present the research design and methodology used to analyze data collected to examine the impact of regulatory accommodation of IBF on Muslims’ financial inclusion. There are three common research design approaches used in academic research, namely, quantitative, qualitative, and mixed methods. I selected the mixed methods research design due to the complexity of my research topic, the social impact of religion in Muslims’ daily financial practices, and lack of extensive empirical IBF financial inclusion research studies in this area.

4.1 Mixed Methods Research

I study the role of religion in Muslims’ daily financial practices and examine whether regulatory accommodation of IBF could lead to an increase in their financial inclusion. I suggest that Muslims’ financial practices and economic decisions are materially influenced by two basic moral principles in Islam including the prohibition of Riba and the proscription of Gharar as being essential for a religious-based value foundation. Hence, regulatory accommodation of IBF could lead to an increase in Muslims’ financial inclusion.

The availability of IBF services in jurisdictions that have authorized the operation of IBF as an alternative could possibly provide Muslims with an alternative financial option for an Islamic, or “Shari’ah-compliant”, access to the financial system. Assuming that the
The IBF sector is stable and performing well, this optional access should lead to an increase in Muslims’ financial inclusion.

The claims of my study are complex because Muslims’ self-exclusion from an interest-based financial system on the basis of their religious values is a multifaceted phenomenon whose analysis requires an examination of the social and religious worldview Muslims use to guide their daily financial practices. In addition, there is no sufficient qualitative research that examines the reasons that compel Muslims to self-exclusion from an interest-based financial system.

To address this gap in the body of existing research and the complexity of the research topic, I have selected a mixed methods research design to analyze the collected data to examine the impact of Muslims’ religious worldview over their daily financial practices. A mixed methods research design allows for the use of a mix of qualitative and quantitative data collection instruments. This combination provides me with objective and subjective data and research tools to use for examining the impact of religion on Muslims’ daily financial practices and analyzing the reasons for their lack of financial inclusion.

A mixed methods research design is defined by John Creswell, an American research scientist who significantly contributed to the development of worldview-based qualitative research methods, as the following:

As a method, it focuses on collecting, analyzing, and mixing both quantitative and qualitative data in a single study or series of studies. Its central premise is that the use of quantitative and qualitative approaches, in
combination, provides a better understanding of research problems than either approach alone.¹

Creswell uses Crotty’s (1998) conceptualization to position the researcher’s philosophical assumptions within a mixed methods study.² Crotty posits out that there are four elements in developing a mixed research study design, including: philosophical assumptions, a theoretical lens to guide the research theory construction, and a methodological approach and methods for data collection. Mixed methods research provides a framework for structuring the analysis of how such philosophical assumptions or beliefs fit into the design of a mixed methods research study.

In his mixed research design methodology, Creswell refers to Crotty’s philosophical assumptions as worldviews.³ He provides four worldviews for consideration in mixed methods research design, namely, positivist, constructivist, participatory, and pragmatist worldviews. While these worldviews do not constitute a rigid compartment of beliefs and values that a participant holds, they do provide a general orientation to the research methodology. I have selected Creswell’s constructivist worldview for my study because I attempt to capture the social and religious meanings that Muslims in my case study use in their daily financial practices.

¹ Creswell and Clark, Designing and Conducting Mixed Methods Research, 5.

² Ibid., 38.

³ Ibid., 39.
The basic philosophical assumption in my study is that, in general, from a theoretical point of view, Muslims elect to self-exclude from the conventional financial system because of their religious values. Examining such claims requires building an understanding of the multiple and subjective meanings Muslims express in their daily financial practices and well as developing and understanding of the religious, social, and historical context that guides their financial worldview.

Table 1 provides a description of Creswell’s worldview structures, including their basic characteristics.\(^4\)

<table>
<thead>
<tr>
<th>Post-positivist Worldview</th>
<th>Constructivist Worldview</th>
<th>Participatory Worldview</th>
<th>Pragmatist Worldview</th>
</tr>
</thead>
<tbody>
<tr>
<td>Determination</td>
<td>Understanding</td>
<td>Political</td>
<td>Consequences of actions</td>
</tr>
<tr>
<td>Reductionism</td>
<td>Multiple participant meanings</td>
<td>Empowerment and issue oriented</td>
<td>Problem centered</td>
</tr>
<tr>
<td>Empirical observation and measurement</td>
<td>Social and historical construction</td>
<td>Collaborative</td>
<td>Pluralistic</td>
</tr>
<tr>
<td>Theory verification</td>
<td>Theory generation</td>
<td>Change oriented</td>
<td>Real-world oriented</td>
</tr>
</tbody>
</table>


A constructivist worldview paradigm is useful in mixed research method for theory generation. I rely on a constructivist worldview as provided to me by Muslim study participants who live in Amman, Jordan to examine and validate my study’s hypothesis.

\(^4\) Ibid., 40.
Theory generation based on the combination of qualitative and quantitative data analysis is used in mixed research methods under the constructivist worldview.

Theory generation based on the mixed methods research design is derived from analysis of the multiple meanings individuals develop within social, historical, and religious contexts that materially influence the decisions they make in their daily financial practices. Muslims’ self-exclusion from interest-based financial services due to religious reasons is a general claim that is best researched based on the mixed methods constructivist worldview methodology. Creswell posits:

Constructivism, typically associated with qualitative approaches, works from a different worldview. The understanding or meaning of phenomena, formed through participants and their subjective views, makes up this worldview … In this form of inquiry, research is shaped “from the bottoms up”—from individual perspectives to broad patterns, and ultimately, to broad understanding.\(^5\)

I use a mixed methods research design to develop a general theory in this study by confirming whether Muslims elect to self-exclude from interest-based banking for financial reasons or other social phenomenon. I use the constructivist worldview structure because it is useful for further exploring the Muslim self-exclusion phenomenon and it captures my Muslim informants’ constructivist worldviews within their social contexts. The basic assumption of this theory is that religion plays a critical role in Muslims’ daily financial practices and in their financial worldview. To complement this subjective analysis, I use quantitative tools to examine whether the Islamic countries that have tailored their

\(^5\)Ibid., 40.
regulatory systems to accommodate the operation of IBF have experienced an increase in the financial inclusion of their Muslim populations.

4.2 Qualitative Case Study Research Method

During the late 1960s and throughout the 1970s, social science researchers realized the need for a humanistic paradigm for researching complex phenomenon based on the concept of *verstehen*, a form of subjective understanding.\(^6\) Traditional research methods that rely solely on “factual” inquiry and single truths, which are more suitable for the natural sciences, are inadequate in providing access to meaning as perceived by the informants in social science research, because the complexity of social research problems calls for answers beyond simple numbers in a quantitative sense.\(^7\) Access to meaning as perceived by the informants in social science research is typically subjective in nature.

Qualitative case study research is focused on capturing subjective truths as perceived by the informants. I selected Jordan as the location for the qualitative portion of my case study in order to develop an understanding of Jordan’s financial inclusion. I examined the daily financial practices of Muslims who live in Jordan in accordance with their religious worldviews.\(^8\) I used semi-structured interviews to collect their views on

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\(^8\) Ibid., 40.
conventional banking, Islamic banking, use of interest, the availability of IBF as an alternative, and the impact of religion on their daily financial practices.

Jordan provides an ideal use case study for my research topic because its central bank authorized the operation of IBF in the early 1970s. Therefore, its IBF sector is mature and well established. Additionally, its population is highly diverse due to the centrality of its geographical location in the Middle East. Muslims in Jordan vary in their levels of wealth, religiosity, and education, which makes Jordan a suitable location for examining the variations in its Muslims’ daily financial practices.

While it is ambitious to make general theoretical claims regarding the impact of religion on the daily financial practices of Jordan’s Muslims, theory generation based on a constructivist worldview in mixed methods research design does allow for identifying broad patterns, and ultimately, could lead to a broad understanding when augmented with complementary quantitative research. It is important to note, however, that the Muslim world and Islamic religion are not monolithic; hence, mixed research theory generation and the general qualitative claims identified in the use case study should be understood as such.

I recognize the limitations of mixed research theory generation in my study due to the diversity of Islamic patterns of behaviors and religious beliefs inherent across the Islamic world. Having said that, the theory generation under mixed methods research and the research design in this study is repeatable and can be systematically applied across the multiple jurisdictions in the Islamic world and within the different sects across the Islamic
faith. In addition, the rejection of *Riba* and *Gharar* are dominant and broadly practiced Islamic religious values.

According to Robert Yin in his seminal work *Case Study Research: Design and Methods*, case study research should be used when the contextual conditions are relevant to the phenomenon being investigated and the boundaries between the context and phenomenon are blurred.\(^9\) The case study research method is used to contribute to our knowledge of individual, group, organizational, social, and political worldviews. Case study research allows for insight into social decision-making processes in terms of how decisions are made, why they are made, and what their outcomes entail.\(^10\)

These criteria fit the research conditions of my study. For example, the contextual conditions of IBF regulatory accommodation in the Islamic countries in this study are highly relevant to the examination of the phenomenon of Muslims’ self-exclusion from the financial system based on religious values. In addition, I use the case study method to contribute to our knowledge of informants’ financial daily practices and economic decisions based on their individual, group, social, and political worldviews.

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10 Ibid., 15.
Case Study Conceptual Framework Design

Case study research must be guided by a suitable conceptual framework design to execute the case research within its parameters. In their book *Qualitative Data Analysis*, Matthew Miles and A. Michael Huberman provide an example of a conceptual framework.\textsuperscript{11} They posit that the conceptual framework identifies who will and will not be included in the study; describes relationships that may be present based on logic, experience, or theory; and gives the researcher the ability to gather data into research constructs.\textsuperscript{12}

Pamela Baxter set the standard for how to best develop such a conceptual framework design in her nursing decision-making study.\textsuperscript{13} The conceptual framework design provides rationale for who will be included in the case study analysis and why. It also provides the researcher with a structure to classify general constructs into specific categories. I adapted her structure to examine the role of religion in the daily financial decisions Muslims make while managing their finances.

I developed the following conceptual framework, illustrated in Figure 3, to capture the case research study structure. The framework consists of a country setting and an


\textsuperscript{13} Ibid.
assessment component. It uses Jordan as the case study country setting for interviewing Muslims who are either working professionals, business owners, bankers, students, or retirees. The country case study setting interviews capture the personal financial decisions and daily practices of Muslim informants who live in Jordan in terms of their borrowing, saving, and depositing decisions.

The framework captures the professional financial decisions and daily business practices of Muslim business professionals who live in Jordan in terms of their business investments and operations. To conduct the assessment in this conceptual framework, I collected, through interview details regarding the role of religion in my informants’ daily financial practices, the options they choose when executing financial banking decisions and the preferences and values they apply in their decision-making processes. The conceptual framework includes the following components:

A. Conceptual framework case research setting:
   - **Country setting**: The case study is executed in Jordan, which has accommodated IBF since the early 1970s.
   - **Professional and personal case study settings**: The case study is composed of twenty-nine Muslims who live in Jordan and who represent a wide segment from Jordanian society including working professionals, business owners, students, housewives, refugees, and retirees. The sample provides diverse composition of age, education, gender, income, and work experience.
   - **Types of financial decisions**: The case study informants were asked to describe their borrowing, saving, and deposit decisions in the management of their daily financial practices. Practices such as buying a home, a car, sending children to college, investing in businesses or in commercial real estate, and starting up and managing small, medium, and large businesses were documented in the case study. Internal and
external factors impacting such decisions were explored in the interviews.

B. Conceptual framework case research assessment:

- Assessment: The case study examines Muslims’ daily personal and business financial practices.
- Role of religion: The case study examines the impact of Islam’s prohibition of the use of interest and speculation on the study informants’ financial decisions.
- Potential financial decisions: The case study examines the patterns of the participants’ decisions including Islamic banks (IBs) use, conventional banks (CBs) use, a mix of IBs and CBs use, or self-exclusion from banking altogether.
- Preferences and values: The case study examine the role of religious, utility, convenience, and reputation preferences in Muslims’ daily financial practices.
Figure 3. Case study conceptual framework design.

Country Setting (Regulatory Accommodation, Performance of Banking Industry)

Professional Setting (Business Finance Practices)

Personal Setting (Personal Finance Practices)

Types of Financial Decisions (deposit, save, borrow)

Muslins' Financial Decision Making Processes

Assessment
Muslins personal and business financial decisions

Role of Religion
- Islam prohibits the use of Interest and speculation

Potential Options
- Use CB financial services
- Use IB financial services
- Use a mix of IB and CB financial services
- Self-exclude from IB and CB financial services

Preferences and Values
- Religious preference
- Utility preference
- Convenience preference
- Reputation preference
4.3 Quantitative Research: Descriptive Research Method

Quantitative research was developed by researchers who pursued scientific inquiry that was dependent on quantitative data. This method dominates the Western world as the method of choice for descriptive research to create new meaning and knowledge in the natural sciences. It is used heavily to investigate relational questions using facts and numerical data from which researchers are able to develop generalizations that contribute to theory.¹⁴ This method originated in sciences that require mathematical modeling to analyze data.

Typically, this method has three classifications, including: descriptive, experimental, and causal comparative. The descriptive research method examines the research question as it exists in its current state. It requires either the identification of attributes of a particular phenomenon or the exploration of correlations between datasets to describe a phenomenon. The descriptive research method uses correlational, developmental design, observational studies, and survey research.¹⁵ This study uses the descriptive research method to analyze relationships between regulatory accommodation and Muslims’ financial inclusion.

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¹⁵ Ibid., 67.
**Convergent Parallel Mixed Methods Design**

Using a mixed research methods methodology, I combine the results of the qualitative and quantitative research methods based on the convergent parallel mixed methods research design as illustrated in Figure 4.¹⁶

![Diagram of Convergent Parallel Mixed Methods Design]

**Figure 4. Convergent parallel mixed methods research design.**

The level of interaction between the qualitative and quantitative research methods in the scope of my study is independent. Both research methods have equal priority, and their point of interface, i.e., the timing of analyzing the results of the two methods relative to each other, is established at the interpretation stage. The purpose of the comparison is to validate the results of the qualitative research based on mutual content areas where the results of the research of the qualitative and quantitative research converge, diverge, or contradict each other.

4.4 Research Hypotheses and Propositions

This research study will examine the impact of regulatory accommodation on Muslims’ financial inclusion in countries that have accommodated the operation of Islamic banking and finance.

Hypothesis Development:

For the quantitative part of the research analysis, I use agency theory to develop and test the following hypotheses:

**H1. There is a positive relationship between regulatory accommodation and the stability of Islamic banks.**

Islamic banks are subject to different regulations depending on the regulatory approach and mode of supervision used in countries that accommodate the operation of Islamic banking and finance. Islamic banks, operating in countries that have adapted their regulatory frameworks and modes of supervision to accommodate the operation of the Islamic banking business model, are expected to exhibit higher levels of financial stability with higher regulatory accommodation. Therefore, it is argued that increased stability of Islamic banks due to regulatory accommodation leads to an increase in Muslims’ financial inclusion due to increased growth, stability, and diffusion of Islamic banking.

**H2. There is a positive relationship between the stability of Islamic banks (Z-score) and Muslims’ financial inclusion.**

I use the Altman Z-score model to measure Islamic banks’ stability. The Altman Z-score model uses financial ratio analysis to measure firms’ stability and financial
performance. This model was published by Edward I. Altman, the Max L. Heine Professor of Finance at the Stern School of Business, New York University, and director of the Credit and Fixed Income Research Program at the NYU Salomon Center.\textsuperscript{17} This quantitative model measures the IBs’ financial health using corporate income and a balance sheet of sixty-five Islamic banks in eleven Islamic countries over a period from 2011 to 2016.

Where,

\[ Z\text{-score} = \frac{(\text{ROA} + \text{EAR})}{\text{SDROA}} \]

\[ \text{ROA} = \text{Return on Average Assets of a bank calculated as net income divided by average total assets} \]

\[ \text{EAR} = \text{Equity Adequacy Ratio of a bank calculated as the ratio of equity to total assets} \]

\[ \text{SDROA} = \text{the standard deviation of ROA over the sample period} \]

The higher Z-score values reflect more stable Islamic banks. I examine whether there is a correlation between the different types of IBF regulatory accommodation and the Z-score results. I used Takioullah Khan’s definitions of the Islamic regulatory approaches classifications as well as the IMF’s classifications of the supervisory modes\textsuperscript{18} in building the survey questions. There are three different regulatory policy approaches for

\textsuperscript{17} Edward I. Altman, \textit{Corporate Financial Distress} (New York: Wiley Interscience, 1993), 297.

\textsuperscript{18} Inwon Song and Carel Oosthuizen, “Islamic Banking Regulation and Supervision: Survey Results and Challenges,” \textit{International Monetary Fund}, December 1, 2014, \url{http://dx.doi.org/10.5089/9781498380928.001} (accessed July 16, 2017).
accommodating IBF, as listed in Table 3.0, according to Khan, Professor of Islamic Finance at Hamad bin Khalifa University. These include:

1. Policy approach: Governments provide policy support and a leveled playing field to develop Islamic financial services in an orderly and resilient manner;

2. Engineering approach: Governments treat Islamic financial services as a matter of financial engineering and product development by service providers; and

3. Hybrid approach: A mix of both approaches depending on the level of importance and impact.19

I correlate the Z-score results with the regulatory approaches in each Islamic country to identify whether an increase in the financial inclusion of Muslims is influenced by the different types of regulatory approaches adopted by the regulatory authority in the eleven Islamic countries in the scope of my study.

I correlate the Z-score results with the supervisory modes used in each Islamic country to identify whether an increase in the financial inclusion of Muslims is influenced by the different types of supervisory modes adopted by the regulatory authority of the Islamic countries in the scope of my study. The supervisory modes refer to the regulatory approach used to adapt the country’s regulatory framework to accommodate Islamic banking and finance. Islamic countries typically use one of three supervisory modes to accommodate IBF, including using a single regulatory framework for IBs and CBs, adding

specific references to address the regulatory requirements for IBF in a single framework, and creating a separate regulatory framework adapted to regulate IBF.

The different regulatory approaches and the different supervisory modes used in the Islamic countries within the scope of my study, as listed in Table 2, were provided to me by Bernardo Vizcaíno, chief correspondent of Islamic Finance at Reuters and the administrator of the Global Islamic Finance Report (GIFR) social group on LinkedIn. He built this table based on industry outreach to the GIFR group and his own field research.

**Table 2: Regulatory Accommodation Approaches in Islamic Banking**

<table>
<thead>
<tr>
<th>Country</th>
<th>Regulatory Approach</th>
<th>Central Bank has <em>Shari’ah</em> Board</th>
<th>Single Regulatory Framework for All Banks</th>
<th>Single Regulatory Framework with References to IBF</th>
<th>Separate Regulatory Framework for Islamic Banks</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bahrain</td>
<td>Hybrid</td>
<td>Yes</td>
<td>*</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bangladesh</td>
<td>Policy</td>
<td>Yes</td>
<td>*</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Indonesia</td>
<td>Policy</td>
<td>No</td>
<td>*</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Jordan</td>
<td>Hybrid</td>
<td>No</td>
<td>*</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Kuwait</td>
<td>Hybrid</td>
<td>No</td>
<td>*</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Malaysia</td>
<td>Policy</td>
<td>Yes</td>
<td>*</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pakistan</td>
<td>Policy</td>
<td>Yes</td>
<td>*</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Qatar</td>
<td>Hybrid</td>
<td>No</td>
<td>*</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Saudi Arabia</td>
<td>Engineering</td>
<td>No</td>
<td>*</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Turkey</td>
<td>Engineering</td>
<td>No</td>
<td>*</td>
<td></td>
<td></td>
</tr>
<tr>
<td>UAE</td>
<td>Policy</td>
<td>Yes</td>
<td>*</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Using the IBF regulatory accommodation case study conceptual framework design, I use quantitative research methods to analyze whether there is a corollary relationship between regulatory accommodation and Muslims’ financial inclusion through qualitative case study research analysis to assess the role of religion, utility (maximization of wealth), convenience (customer service, location, and business model), and reputation (bank stability, profitability, and size) in Muslims’ daily financial decisions.
For the qualitative component of my research, I tested the following qualitative research propositions using case study methods:

1. The financial decisions my study informants make are influenced by faith values; this study asks them to describe the factors that influence the decisions they make (borrowing, savings, and deposits) in their daily financial practices.

2. My study informants have a religious and cultural aversion to debt. This study asks devout and non-devout Muslims to describe their sentiments toward debt and borrowing and the factors they consider when assuming debt.

3. The financial decisions my study informants make are based on strong knowledge of IB and CB banking services. This study asks them to describe their level of IBF knowledge and to describe the differences between IBs and CBs.

Based on normative decision theory, the research propositions assume that my study informants who have access to financial services that are compliant with their values would select Islamic banking services over conventional counterparts. Normative decision theory prescribes decisions that ought to be made based on the norms adopted as a function of group membership. In this case, the group membership is based on being a Muslim. The study assumes that Muslims adopt faith-compliant financial services due to their religious beliefs, even if they are made available to them at a higher cost. The goal of my study is to examine the validity of such normative assumptions based on analyzing the worldviews and the daily financial practices provided to me by my study informants.

The research results of the quantitative and qualitative study are contrasted and compared using the convergent parallel research design method as illustrated in Figure 5. The convergent parallel design is used to validate the quantitative research hypothesis based on the open code analysis of the qualitative case study research. To triangulate
the qualitative case study analysis, I use online survey questionnaires to evaluate whether regulatory accommodation could have an impact on increasing Muslims’ financial inclusion based on two online surveys: a Financial Inclusion survey as well as a Regulatory Accommodation survey. I compare and contrast the results of the quantitative surveys with the text analysis of the interviews to identify contradictory and/or common opinions and perspectives.
Figure 5. Convergent parallel mixed methods research design.

**QUAN Data Collection**
- Procedures:
  - Online survey of 357 Muslim participants to examine their customer satisfaction.
  - Online survey of 41 IBF subject matter experts
  - 65 Banks' Financial Balance Sheets
- Products:
  - Numerical Item scores
  - Altman (z-Scores)

**QUAN Data Analysis**
- Procedures:
  - Descriptive Statistics
  - Group comparisons
- Products:
  - Assess whether z-Scores have a positive correlation with regulatory accommodation
  - Means, SDs
  - Significance Values

**QUAL Data Collection**
- Procedures:
  - Select 35 Muslims who live in Jordan to study their daily financial practices.
  - Semi-structured interviews
- Products:
  - Transcripts Codes & Coding

**QUAL Data Analysis**
- Procedures:
  - Constant comparative thematic analysis
- Products:
  - 6 major themes
  - Topology of Muslims daily financial practices

**Merge Results**
- Procedures:
  - Cross tabulate qualitatively derived groups with quantitative variables
  - Examine how merged results produce a better understanding
- Products:
  - Matrix relating qualitative themes to quantitative variables

**Interpretation**
- Procedures:
  - Discussion
- Products:
  - Discussion
4.6 Overview of Data Collection Instruments

I draw on multiple sources of data, including interviews, online surveys, financial performance statistics, and reports. I utilize both qualitative and quantitative instruments to collect complementary and comprehensive data.

The Qualitative Data Collected: Semi-Structured Interviews

I collected qualitative data through semi-structured interviews. The interviews took place over three weeks between April 15, 2017 and May 7, 2017 in Amman, Jordan. I interviewed twenty-nine Muslims who live in Jordan and asked that they provide me with a description of their daily financial practices. These interviews helped me to develop an understanding of the research problem and the role of religion in Muslims’ financial inclusion. The interviews gave the participants an opportunity to share their worldviews, opinions, and perspectives on debt, the use of interest in banking, and the role CBs and IBs play in their daily financial decisions. The interviews were all anonymous in order to protect the privacy of the informants and to provide them with a safe space to elaborate their views without concerns about what others might think of their opinions.

All the interviews were conducted in Arabic. I have recorded all the interviews and translated them into English. The format of the interviews was free-form with a number of semi-structured questions to gain insight into what informants valued and the meaning they attached to their financial decisions based on their own personal, cultural, religious, economic, and environmental conditions. I used the following interview questions:

A. Do you use banking services including depositing, borrowing, and savings?
B. Do you use IBs, CBs, a mix of the two, or no banking services? Why or why not?
C. What are the differences between Islamic and conventional banking?
D. If you use banking services, does your bank provide you with a credit and/or debit card? Do you use these cards to pay for food, housing, transportation, and/or clothing?
E. Do you believe that IBs and CBs are able to compete equally? Why or why not?
F. Describe how you manage the following personal financial decisions concerning:
   a. Housing
   b. Household appliances
   c. Food and clothing
   d. Transportation
   e. College education
   f. Marriage
G. Describe how you manage your business financial decisions concerning:
   a. Payroll management
   b. Business startup (capital management)
   c. Management of business expenses (products, inventory, etc.)

The duration of the interviews varied depending on the informants’ openness and engagement in the interview process and normally ranged between thirty and ninety minutes. The informants also provided valuable insight and information that was not in the scope of the list of questions I used. They freely expressed their opinions, the details of their financial practices, and the reasons why they used either IBs or CBs or neither form of banking. The transcripts of the interviews and the recordings are archived to support the validity of this research. A sample of the interview transcripts is included in Appendix C.

The interviews were conducted in person at the informants’ place of work and/or home and were recorded. All participants explicitly agreed to have their interviews recorded, and I showed them the recording device, which was kept visible during the interview to confirm their acceptance. None of the informants declined to be recorded.
I translated and transcribed all the interviews in detail. I did all my coding and comments manually to extract themes and patterns from the translated text. Additionally, I used NVivo software to analyze the interview text and highlight themes, relationships, and frequencies. I found manual coding most beneficial because I was able to quickly scan through the interviews and identify common themes and codes. I used NVivo software to help me validate the manual themes and develop structured analysis of the interview transcripts. It helped me organize and code the quotations and group similarly coded data into categories.

Afterwards, I shared the analysis of the interviews with a number of the informants, IBF experts, and bankers to validate the approach and the results. The three experts are conversant in IBF banking. I discussed the themes, the findings, and shared my perspective with these experts (bankers, regulators, and academic researchers) to validate my findings. I also asked a subset of the informants to review and provide their feedback and perceptions as well. Cross-checking the analysis with the informants and the experts in the field is an important aspect of the validity verification.

**The Quantitative Data Collected: Online Survey Instruments and Financial Data**

The second part of this study was quantitative in design. I designed the surveys after reviewing several survey instruments that had been employed to measure Muslim consumers’ satisfaction with Islamic banking services at the country level. I used three survey instruments to explore Muslims’ customer satisfaction with Islamic banking services and examine the views and opinions of Islamic banking experts including bankers,
regulators, and academic researchers. The quantitative dimension thus complemented the qualitative component of the research.

I used the SurveyMonkey.com platform to design and publish the surveys. I adjusted the survey instruments to expand the scope of data collection using social media forums on LinkedIn, Facebook, and WhatsApp. The following social media platforms and groups were used to solicit feedback and responses to the online survey:

1. LinkedIn groups:
   - Nida Davis profile (1,164 connections);\(^{20}\)
   - The Global Islamic Finance Resources (19,840 members);\(^{21}\)
   - Global Islamic Finance Report (2,195 members).\(^{22}\)

2. Facebook pages and groups:
   - Nida Davis profile (239 connections);\(^{23}\)
   - Women in Business Arabia (26,438 members).

The Financial Inclusion survey was published in English and in Arabic to give the participants the opportunity to fully understand the questions and feel comfortable while taking the survey. The design of the English version of the Muslims’ Financial Inclusion


survey was reviewed and validated by Dr. Hulusi Inanoglu, a senior economist at the Federal Reserve System.

A weakness in the online quantitative instrument was that participants had to have access to the internet in order to fill out the online survey. This requirement excluded poor Muslims with no access to the internet. To compensate for this weakness, I enlisted two university students to conduct field research in Jordan: Zain al-Jailani, an architectural engineering student, and Mohammad Smadi, industrial engineering graduate. Al-Jailani and Smadi administered the online survey to fifteen low-income and non-English-speaking Muslims with no college education. They used an electronic tablet to enter the responses to the online survey questions, and to ensure validity, they also tape-recorded the responses.

I designed the Regulatory Approaches survey based on the guidance of my thesis adviser, Professor Shakir Ulah, and on feedback from Abdulbari Mashal, an Islamic banking Shari’ah expert and the social media moderator of the Islamic Economic Forum on WhatsApp. WhatsApp is a social media platform that enables social media collaboration via smartphone technology. The Regulatory Approaches online survey was published in Arabic and in English based on Mashal’s recommendation to give the Forum’s subject-matter experts who do not speak English the opportunity to respond. The Arabic-based Islamic Economic Forum on WhatsApp has 256 members, and the English-based Islamic Economic Forum has 255 members. The forum is composed of IBF bankers, regulators, and academic researchers from all over the world. Mashal administers both groups, manages the membership, and facilitates the discussions and research topics addressed on
the forum. In addition, I used the LinkedIn social media platform and published the online regulatory survey to the Global Islamic Finance Resources Group as well as the Global Islamic Finance Report Group.

I used the Orbis Bank Focus database to collect the financial statement data for sixty-five Islamic banks in eleven Islamic countries. The Orbis Bank Focus database information is sourced by Bureau van Dijk, which provides annual banking reports, financial statement data, and financial ratios. I collected the financial inclusion data for the eleven countries in the scope of this study from the World Bank Global Findex Database.

4.7 Justification, Validity, and Reflexivity of the Study

This study is designed to provide IBF banking regulators, bankers, and researchers with insight and recommendations regarding the impact that regulatory accommodation of IBF may have on Muslims’ financial inclusion. Most of the current research studies examine Muslims’ financial inclusion based on quantitative research methods. This study contributes to our knowledge of the role IBF plays in practice in the daily financial practices of my study informants based on the data collected in the interviews and online surveys.


**Justification**

My study calls for an improved understanding of the impact IBF regulatory accommodation could have on Muslims’ financial inclusion, which is a complex research phenomenon. For this type of research, it is best to use a mixed methods research design as I have explained earlier in this chapter.²⁶ Mixed methods research creates practical insight because it combines deductive and inductive thinking to solve the research problem and it has been successfully used in a number of prominent research studies.²⁷ Examples of well-known mixed methods research studies were executed by Kutner, Steiner, Jahnigen, and Board (1999) as well as by Baxter (2008). They used open-ended interviews to first explore their informant’s issues and concerns and then followed up with a quantitative study to examine if such concerns and issues varied based on a list of variables they selected in the study.

**Validity**

I included triangulation and respondent validation to test the validity of the research. In order to confirm respondent validation, I shared with the participants the transcribed interviews and asked them to validate the scripts and provide assurance that my transcripts and understanding of the informant’s intended meaning are accurate as well as to validate that my translation of their interview from Arabic to English is complete. In


²⁷ Ibid., 13.
addition, I used convergent parallel design to compare and contrast the results of the case study analysis with the results of the quantitative analysis.

**Reflexivity**

Reflexivity in qualitative research has a very long history that spans over a century.\(^{28}\) It centers on the evaluation of the intersubjective factors that could influence qualitative research topics based on the researcher’s own self-awareness of their biases. Researchers must negotiate their own subjective bias based on self-disclosure and self-analysis to mitigate and manage validity risks in their research outcome. I use the introspection reflexivity method to examine my own bias and experience.

Being a Muslim researcher poses a threat to the validity of my research because of my own negotiation with self-deconstruction. I use self-disclosure and self-analysis as well as solicitation of the reflections of non-Muslim researchers on my research process and outcome to protect the outcome of this research from my own Muslim bias. I am aware of my bias towards Islamic banking and finance due to my upbringing and my subjective Islamic worldview.

To protect this study from my own internal bias, I validate my knowledge claims using credible references and cross-compare the results of my research with the works of experts in this field. In addition, I have deliberately selected interview informants who

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represent very broad and divergent points of view to counterbalance my own biases. I did not lead the informants, and I did not try to influence or challenge their opinions.

I translated the interviews from Arabic to English. This could pose a threat to the validity of this research due to loss of some of the authentic meaning during the process of translation. To assure the validity and clarity of my translation, I solicited Arabic speakers fluent in English to review and validate my interview translations to assure that my translation is accurate. Another threat to validity lies in the translation of the interviews from Arabic to English as well as translating the online surveys from English to Arabic and from Arabic to English. These instruments could possibly lose some of their authentic purpose and meaning due to the translation process.

To protect the validity and the clarity of translations, I consulted two Arab experts who are fluent in English to read and validate the interview and online survey translations. I also requested the informants who spoke English to review and validate the translations of their Arabic interviews. I have kept records of all the interviews, online surveys, the interview transcripts, and the coding of the interviews as records to support the validity of this study.
4.8 Summary

This study examines the impact of IBF regulatory accommodation on Muslims’ financial inclusion. Using case study research and online surveys, it analyzes Muslims’ awareness, depth of knowledge, acceptance, and adoption of IBF as an alternative to conventional banking. Using quantitative analysis of Muslims’ financial inclusion and the performance and stability of sixty-five Islamic banks in eleven countries, this research study attempts to provide answers to the following research questions using a mixed methods research design:

A. Do Islamic religious values including prohibition of Ribā and Gharar play a critical role in Muslims’ daily financial practices?

B. Does Islamic banking and finance play a critical role in expanding Muslims’ financial inclusion?

C. Does IBF regulatory accommodation lead to an increase in financial inclusion?

I use a convergent parallel research design under the mixed methods research design to combine the outcome of the research results to draw on the advantages of using a mixed research method design and to glean insight and validate the hypothesis of this research study. The mixed research instruments I use in the analysis are designed to provide proof that providing alternatives to support Muslims’ access to the financial system through regulatory accommodation of IBF leads to an increase in their financial inclusion.
CHAPTER 5

RESEARCH RESULTS

This chapter presents the results of my research analysis. This study aims at assessing whether the accommodation of Islamic banking leads to an increase in Muslims’ financial inclusion. I conducted quantitative and qualitative analysis of data I collected for the purpose of this study. I used a convergent parallel mixed methods research design to assess whether the combined results of the quantitative and qualitative analysis support the theory’s assertions that were presented in this study.

The convergent parallel mixed research results affirmed the importance of the role religion plays in Muslims’ financial practices and its impact on their financial inclusion. The qualitative interview analysis results and the quantitative financial inclusion survey coupled with regulatory accommodation survey analysis results confirmed that the majority of Muslims consider the use of fixed-interest in financial practices a form of Riba that limits and adversely impacts their access to the financial system. The quantitative Z-score analysis results indicated that regulatory accommodation of Islamic banking leads to an increase in Muslims’ financial inclusion. The research analysis result, in general, supported my theory’s assertions and confirmed that regulatory accommodation of Islamic banking and finance leads to an increase in Muslims’ financial inclusion.
5.1 Quantitative Data Analysis

5.1.1 Muslims’ Financial Inclusion Online Survey Analysis

Survey participants were asked to fill out the Islamic Banking Financial Inclusion survey using an online survey program (SurveyMonkey). The survey was configured to prevent multiple submissions by the same participant. All participants completed a computer survey consisting of open-ended and close-ended questions. Participants were asked to provide demographic information including age, gender, religion, marital status, educational level, profession, years of experience, country of origin, and country currently living and/or working in. The survey sample reflects the racial, gender, and ethnic composition of the social media groups that were asked to participate in the survey. The following social media platforms and groups were used to solicit feedback and responses to the online survey:

3. LinkedIn groups:
   • Nida Davis profile (1,164 connections);\(^1\)
   • The Global Islamic Finance Resources (19,840 members);\(^2\)
   • Global Islamic Finance Report (2,195 members).\(^3\)

4. Facebook pages and groups:


\(^3\) Ibid.
• Nida Davis profile (239 connections);\textsuperscript{4}
• Women in Business Arabia (26,438 members).

The survey did not collect any personally identifiable information (PII), and all participants were informed that the survey is anonymous. The survey questions are attached in Appendix B.

\textbf{Procedure}

Participants were asked to fill out the survey using an online survey program (SurveyMonkey). Requests for participation were posted on social media groups, and a web link was provided to the participants to fill out the survey. The survey included an online informed consent participation form as well as a declaration of the purpose of the survey and intended survey data use. The survey was designed to be completed in sixty minutes or less. The survey included my contact information to answer any questions by the participants regarding the survey’s questions or the research study.

\textbf{Participants}

Participants were 357 members of LinkedIn and Facebook social media groups (156 female, 201 male; 312 Muslims, 45 non-Muslims; 263 married, 89 single; 11 with some graduate school training, 110 college graduates, 155 post-graduates, 60 PhDs; the participants range of years of work experience = 1–15+, 31.09\% participants have >15

years of experience; 352 banked, 5 unbanked; median age = 40; age range = 18–75+). Of 357 participants, 96% ($n = 342$) are college or graduate level educated. The survey respondents filled out the questions that applied to their area of interest and as they applied to their use of Islamic or conventional banking.

The survey does not include Muslims who do not have a formal education. This may lead to a biased outcome that does not include poor and uneducated Muslims who lack access to the internet and are not English literate. To overcome this online survey bias, I complemented the online survey with the interviews in Jordan. Five of my interview participants do not have a formal education, and half of the interview participants are not English literate. I conducted the interviews in Arabic and translated them to English to address the online survey bias. Figure 6 illustrates the composition of the level of the participants’ education.

![Figure 6](image.png)

**Figure 6.** Participants' level of education.
The participants were asked to report the country in which they lived, and of the 357 participants, 84% (n = 300) participants reported that they live in the following countries: 44% (n = 132) live in Jordan, 17% (n = 52) live in the United Arab Emirates, 16% (n = 48) live in Nigeria, 8% (n = 25) live in the United States, 5% (n = 15) live in Saudi Arabia, 3% (n = 10) live in India, 2% (n = 7) live in Oman, 2% (n = 7) live in Pakistan, and 1% (n = 4) live in Malaysia. Of the 357 participants, 15.96% (n = 57) participants reported they live in one of the following countries: Austria, Bosnia, Canada, China, Egypt, France, Germany, India, Indonesia, Ivory Coast, Kuwait, Kyrgyzstan, Lebanon, Luxembourg, Maldives, Morocco, Qatar, Singapore, Sri Lanka, Tanzania, Tunisia, United Kingdom, Uzbekistan, or Zambia.

**Measures**

**Knowledge of Islamic banking.** Participants were asked whether they have heard of Islamic banking products and services and to assess their level of understanding of Islamic banking. They were also asked to assess whether the profit-and-loss sharing feature of Islamic banking offers a better business model compared to fixed-interest feature of conventional banking.

**Financial inclusion and use of Islamic banking.** Participants were asked whether they have an Islamic bank account and, if so, why they choose to use it and to rank from a predetermined list of Islamic banking products the ones that were most important to them. Participants who use conventional banking products and services or use both banking services were asked to share the reasons for their use.
**Customer satisfaction with Islamic banking.** Participants were asked to assess their satisfaction with Islamic banking products and services and whether Islamic banks are able to compete equally against conventional banks. Participants were asked to assess whether Islamic banks offer competitive products to gauge the participant’s gap in perception in terms of Islamic banking’s ability to compete versus offering competitive products.

**Differentiation of Islamic banking.** Participants were asked to assess whether there are differences between Islamic and conventional banking services and whether Muslims should shift from using conventional banking to Islamic banking and to rank the reasons for why Muslims should shift.

**Accommodation of Islamic banking.** Participants were asked whether their country should accommodate Islamic banking. Participants were asked to assess whether the accommodation of Islamic banking is important to Muslims’ financial inclusion and to the economic development and growth of their country.

**Results**

Below, I analyze the responses of the survey participants in order to assess their knowledge and use of Islamic banking. Next, I examine whether the participants consider that there are major differences between the two banking systems based on their knowledge of Islamic banking. I assess the participants’ satisfaction, differentiation, adoption, support for accommodation, and views on the importance of Islamic banking to financial inclusion and economic development. Lastly, I assess whether the participants believe that Muslims
should shift from using conventional banking to using Islamic banking and, if so, what are the most important reasons for justifying such a shift.

**Knowledge of Islamic Banking**

The majority of the participants 97.17% (n = 343) reported that they have heard of Islamic banking. Only 10 of the 357 participants reported that they have not heard of Islamic banking and finance. Participant reported the level of their understanding of Islamic banking using a qualitative scale (1=weak, and 4=Excellent); of the 354 participants who reported their level of understanding of Islamic banking and finance, 12.43% rated it as weak (n = 44), 32.49% average (n = 115), 32.77% good (n = 116), 22.32% excellent (n = 79). Figure 7 illustrates the participants’ reported level of understanding of Islamic banking.

![Figure 7. Reported level of understanding of Islamic banking.](image)

The participants were asked to assess whether profit-and-loss sharing, which is one of the primary features of Islamic banking, offers a better banking business model over
fixed interest in conventional banking using a list of options (Yes, No, I do not know, and Other). Of the 346 participants, 45.66% selected “Yes” (n = 158), 31.50% selected “I do not know” (n = 109), 19.65% selected “No” (n = 68), and 3.13% selected “Other” (n = 11).

The participants were asked to provide comments on their assessment of the Islamic profit-and-loss sharing banking model. Below I have listed an illustrative sample of some of the comments that were submitted by the participants:

“There is no certainty in business. Any business can go bad. So, profit-and-loss sharing is definitely a better business model. But most of the depositors of Islamic banking are from middle income group ... loss sharing by the depositors might discourage them.”

“Still a nascent area of banking. Not enough information yet to assess.”

Based on the reported level of knowledge, understanding of Islamic banking model, and level of education of the participants, it is reasonable to state that knowledge and understanding of the Islamic banking business model by the participants was above average. The participants’ comments reflected a good understanding of the Islamic banking model in terms of its emphasis on sharing of risks. Islamic banking differs from conventional banking not only because it proscribes the use of interest, but also because it views profit-and-loss risk sharing as a foundational design element in the borrowing-lending relationship.

**Financial Inclusion and Use of Islamic Banking**

The majority of the participants reported that they have a bank account. Of the 357 participants, 98.60% (n = 352) reported that they have a bank account and 1.40% (n = 5) participants reported that they do not have a bank account. Of the 356 participants, 42.13%
(n = 150) participants reported that they have an Islamic bank account; 55.90% (n = 199) reported that they have a conventional bank account, and 35% (n = 128) reported they use both Islamic and conventional banking. Later on, I further analyzed why Muslims use both banking systems. I observed that Muslims use conventional banking for salary deposits and Islamic banking for savings and borrowing services to avoid use of interest.

Participants who did not have a bank account were asked to select from a list the reasons as to why they do not have one. It is interesting to note that of the five participants, only one noted that they do not have a bank account due to religious reasons. Later on, and based on further research analysis, I observed that poor and unbanked Muslims prefer to use Islamic banking for religious reasons. However, my research showed that while religious reasons play a big role in Muslims’ exclusion from the financial system, poverty, education, and social practices play a bigger role in their exclusion. The unbanked interview participants noted that poverty is a primary reason for their exclusion; female participants noted that reliance on their husbands is the primary reason for their exclusion. However, the unbanked interview participants affirmed that if they had the choice, they would not use conventional banking due to the proscription of Riba.

The unbanked survey participants were asked to provide reasons for not having an Islamic bank account. The sample did not include a large enough number of unbanked survey participants; the results in quantitative surveys, therefore, could lead to bias based on the design of the questions. This confirms the importance of applying mixed methods.
research to better assess the quantitative and qualitative results. Figure 8 illustrates the reasons the five survey participants reported for not having a bank account.

![Figure 8. Reported reasons for not using banking services.](image)

Participants were asked to rank a list of reasons for using Islamic banking. Of the 178 participants, 77.53% (n = 138) ranked religious reasons, 14.04% (n = 25) ranked better bank services, and 12.92% (n = 23) ranked bank reputation, 10.67% (n = 19) ranked low risk investment, 10.11% (n = 18) ranked competitive products, and 4.49% (n = 8) ranked profitability. This result confirms the critical role religion plays in Muslims’ financial inclusion. Religious reasons are the dominant driver for Muslims’ adoption of Islamic banking. The majority of Muslims view interest as a form of Riba, regardless of the level of their religiosity. I assessed whether this assertion is valid based on the results of the qualitative interviews. All of the qualitative interview participants unequivocally affirmed their belief that use of interest is a form of Riba at all levels of religiosity. Additionally, the
results show that next to religious reasons, the bank’s reputation and service are the two most important drivers.

Figure 9 illustrates the ranking of the reasons for using Islamic banking as reported by the participants.

Figure 9. Ranking of reasons for using Islamic banking.

The interview participants favorably viewed Islamic banking’s ability to compete with conventional banking. The interview participants who used Islamic banking indicated that the Islamic bank’s reputation is equally important to them as is convenience and access.
to a broad spectrum of financial services. Therefore, while religion plays a dominant role in Islamic banking, being the primary reason for its adoption, it is not the only important factor. Islamic banking’s ability to compete, offer a broad range of services, and improve accessibility and customer service were also key factors for adopting this form of banking.

In order to assess the relative importance of Islamic banking products, participants were asked to rank them based on their preferences and experience. The participants provided the following ranking preferences. Of the 248 participants, 47.58% (n = 118) ranked Mudaraba (savings account), 41.94% (n = 104) ranked Islamic checking account, 36.29% (n = 90) ranked Murabaha (debt finance), 26.61% (n = 66) ranked Ijara (lease finance), and 21.77% (n = 54) ranked Musharaka (equity finance.) Sukuk, an Islamic bond, and Takaful, Islamic insurance, products ranked the lowest in importance by the participants with Takaful ranking 20.9% (n = 52) and Sukuk ranking 16.94% (n = 42).

The survey participants ranked the need for Mudaraba (saving accounts) higher than the need for deposit accounts. Upon further analysis of this ranking and based on the results of the qualitative interviews, I observed that the use of deposit accounts in a conventional bank was viewed not consistent with Muslims’ religious values only by Muslims whose religiosity levels are high. Muslims with basic and central levels of religiosity do not see a difference between Islamic and conventional banking in terms of using deposit services. However, Muslims at all levels of religiosity consider use of fixed-interest products a form of Riba and have challenges in accessing the financial system.
because they cannot use conventional banking products to save or borrow. Figure 10 illustrates the reported ranking of Islamic banking products.

Commercial finance products such as Musharaka, Takaful, and Sukuk ranked lower than retail finance products. These products are important for commercial finance to obtain commercial loans and for starting up new businesses. The results of this ranking are not surprising considering the fact that the Takaful insurance products are a fairly new offering in a number of Islamic countries and the Sukuk products are used primarily to provide liquidity facilities for Islamic banks and to fund industrial and commercial investment projects.

Participants who use conventional banking were asked to report why they were using it. A list of reasons was provided for the participants to select from. Of the 266 participants, 62.78% (n = 167) reported that the reason is that they already have a conventional account, 14.66% (n = 39) reported that they are not motivated to use Islamic
banking, 12.03% (n = 32) reported they do not have confidence in Islamic banking, 12.03% (n = 32) reported that most people already have conventional accounts, 3.76% (n = 10) reported they would like to have interest profit, and 1.5% (n = 4) reported fear that their funds might be frozen due to Islamophobia. Figure 11 illustrates the reasons participants reported for using conventional banking.

Figure 11. Reported reasons for using conventional banking.

These results reflect that while religious reasons are important for attracting Muslims who opt to not use conventional banking, religious drivers are not sufficient for attracting Muslims who have existing conventional accounts. It is also not sufficient for the survey participants who are either not convinced, do not have confidence, or are not motivated to use Islamic banking. This indicates that Islamic banking would benefit from making further investments in improving customer services, expanding geographical
presence, and expanding service offerings to attract Muslims who are not motivated to shift their banking practices solely due to religious reasons.

It is important to note, however, that most Muslims who use conventional banking limit their use to deposit services to avoid using fixed-interest products. Additionally, a number of the survey participants stated in their comments that they have not voluntarily opted to use conventional account on their own but rather because their employer requested that they do so for the purpose of salary deposits. The interview participants confirmed this practice as well and pointed out that it would be difficult for them to use a different bank other than the one selected by their employer for their salary deposit. This is a common business practice in a number of the Islamic jurisdictions. This indicates that Islamic banking would benefit from targeting commercial business enterprises to attract businesses to choose Islamic banking for salary deposit services.

The participants were asked to provide comments on using conventional banking. The three most frequently submitted reasons in the comments were: (i) lack of availability of Islamic banking in the region or country where the participants lived; (ii) common business practices where employers instructed their employees to use a specific bank for salary deposit that may or may not be an Islamic bank; and (iii) lack of motivation or confidence in Islamic banking. Below I have listed an illustrative sample of the comments provided by some of the participants:

“No alternative for Islamic banking in my region.”

“There is no Islamic banking available.”
“Islamic banks are not in my country yet.”

Participants who use both Islamic and conventional banking were asked to provide the reasons for using both banking systems. Of the 128 participants who use both banking systems, 42.19% (n = 54) cited Islamic banks’ limited facilities, 25% (n = 32) cited conventional banks’ wide range of services, 23.44% (n = 309 cited Islamic banks’ limited range of services, 11.72% (n = 15) cited investment diversification, and .078% (n = 10) cited fear of Islamophobia. Figure 12 illustrates the reasons participants reported for having both banking systems.

![Figure 12. Reported reasons for using Islamic and conventional banking.](image)

Islamic banking facilities remain not widely available compared to conventional banking in the Islamic world. Interestingly, comments provided by the survey and interview participants concerning having to use both banking systems revealed an unanticipated set of reasons. The first is that Muslims tend to use conventional banking...
mostly for deposit services only; second, employers use conventional banking for salary deposits. Some of the survey participants reported that is not a choice they would have made personally if they had a choice due to religious reasons. Therefore, they opted to open a personal Islamic bank account for saving and borrowing services. Below I have listed an illustrative sample of the responses provided by some of the survey participants to explain why they use both banking systems:

“Conventional banking is just for my current account while Islamic banking is for savings account.”

“My organization has a contract with a conventional bank. Therefore, I have an account with a conventional bank; my personal account is in Islamic bank.”

“I bought my home through an Islamic bank, but use a conventional bank for everything else.”

Participants were asked to assess whether Islamic banking is important for financial inclusion. Of the 350 participants, 68.86% (n=241) reported that they consider Islamic banking important for financial inclusion, 12.85% (n = 45) participants reported that it is not important, and 16.85% (n = 59) participants reported that they do not know whether it is important or not. Muslims who use conventional and Islamic banking services agree that it is important to have a choice in order to ensure that there is a freedom of choice in banking. This result indicates that Muslims who use Islamic banking highly value having multiple options to choose from and they consider it vital for their financial inclusion. It also indicates that Muslims who use conventional banking are highly supportive of Islamic banking because it provides Muslims who are not able to use conventional banking for
religious reasons an alternative option compliant with their faith values. This result also supports the assertions of my thesis in that Islamic banking plays a critical role in increasing Muslims’ financial inclusion. Figure 13 illustrates the participants’ assessments.

![Figure 13. Reported importance of Islamic banking to financial inclusion.]

Islamic banking is favorably viewed by the survey participants as an important alternative by Muslims who use Islamic banking and Muslims who use conventional banking. The survey participants stressed the value of freedom of choice, ability to comply with religious values, and the importance of expanding financial inclusion. They ranked religion the most important and primary driver for adopting Islamic banking as reported by 38.94% (n = 138) of the survey participants. The most important Islamic banking products ranked by the participants were Mudaraba (saving accounts), Islamic checking accounts, and Murabaha (debt finance). This result confirms the importance of Islamic banking for
increasing Muslims’ financial inclusion because Muslim participants ranked highly the need for having alternative borrowing and saving options that are compliant with their Islamic faith values.

**Customer Satisfaction with Islamic Banking**

Participants were asked to assess their satisfaction with Islamic banking products and services and to assess whether Islamic banks are able to compete equally against conventional banks. Of the 262 participants, 18.70% (n = 49) reported that they are very satisfied, 32.82% (n = 86) reported that they are satisfied, 25.57% (n = 67) reported that they are somewhat satisfied, 18.32% (n = 48) reported that they are not satisfied, and 4.48% (n = 12) selected other and provided comments. Figure 14 illustrates the participants’ reported level of satisfaction with Islamic banking.

![Figure 14. Reported level of satisfaction with Islamic banking.](image)
The participants were asked to provide comments regarding their level of satisfaction with Islamic banking. Below I have listed an illustrative sample of the comments that were submitted by some of the participants who are not satisfied with Islamic banking:

“It is Islamic in name only. No difference.”

“I was very disappointed with their products and services.”

Participants were asked to assess whether Islamic banking is able to compete equally with conventional banking. Of the 340 participants, 57.65% (n = 196) reported that it is able to compete equally, 28.82% (n = 98) reported that it is not capable of competing equally, and 13.53% (n = 46) reported that they do not know. Figure 15 illustrates the participants’ reported assessment of Islamic banking’s ability to compete equally.

![Figure 15. Islamic banking’s ability to compete with conventional banking.](image)

The participants reported that Islamic banking is able to compete in countries that have accommodated its operation. However, because many countries do not allow the
operation of Islamic banking, they reported that this form of banking and finance is not able to fully compete equally with conventional banking. Additionally, the design of some of the Islamic banking products requires accommodation or revisions in existing tax laws to prevent the burden of double taxation. Not all countries are willing to revise their taxation laws to accommodate the buy-sell design of a number of the Islamic banking products. Jordan, the research case study country, has made a number of revisions in its tax laws and in other legal accommodations to ensure that Islamic banking is able to compete equally with conventional banking. Therefore, the result of the interviews’ assessment of Islamic banks’ ability to compete had a much higher percentage than the result of the survey. Below I have listed an illustrative sample of the comments that were submitted by some of the participants on Islamic banking’s ability to compete:

“Yes, but only in some countries.”

“With government support. Deep liquidity, not enough investment grade products.”

Participants were asked to assess whether Islamic banking offers competitive products. Of the 349 participants, 28.37% (n = 99) reported that Islamic banking offers more competitive products, 34.38% (n = 120) reported that Islamic banking does not offer competitive products, and 34.96% (n = 122) reported that they do not know whether it is competitive or not. Below I have listed an illustrative sample of the comments that were submitted by some of the participants on Islamic banking’s ability to offer competitive products:

“Competitiveness is not necessarily associated with being Islamic or not.”
“Competitiveness … is not a function of whether the bank is Islamic or conventional.”

“The products have different aims and approaches. We cannot adopt a competition dialectic.”

“That would not make a difference to me. If it were trustworthy Islamic banking, I would go for it.”

Despite such assessments, of the 262 participants who use Islamic banking, 51.56% (n = 135) reported that they are either very satisfied or satisfied. In general, and based on the reported levels of satisfaction, Islamic banking is on average perceived favorably among the interview participants who use its products and services.

**Differentiation of Islamic Banking**

Of the 351 participants, 71.79% (n = 252) reported that they believe there are differences between Islamic and conventional banking, whereas 21.08% (n = 74) reported that there is no difference, and only 3.70% (n = 13) reported they do not know. Some of the interview participants provided comments in which they stated that they do not see any significant differences between the deposit services offered by both Islamic and conventional banking and justified their use of conventional banking because current deposit accounts in conventional banking do not accrue interest.

Some of the comments in the survey reflected that Islamic banking has moved away from certain Shari‘ah principles and that it is Islamic in name only. A number of the survey and interview participants shared that they are really not convinced that this form of banking is Islamic but they are following the Fatwa. I observed that these assessments are
dependent on the measure of religiosity, education, and income. Doubting that Islamic banking is in fact Islamic is more prevalent among interview participants whose religiosity measure is either very basic or very high. Participants with basic level of religiosity and high income did not see much of a difference between Islamic and conventional banking in terms of using deposit banking services; participants with high level of religiosity and low income (knowledge and orthopraxis) expected a higher level of compliance from Islamic banking; participants with high levels of income and education do not see much of a difference either. This variation illustrates the complexity of assessing how Muslims view Islamic banking and shows that Muslims do not have monolithic views on this matter. Therefore, painting Muslims’ ability to differentiate between conventional and Islamic banking needs to be void of broad generalizations and based on empirical analysis that combines religiosity, income, and education.

Having said that, the polarization and mixed expectations of Islamic banking is a normal aspect of the adoption process and the introduction of a new form of banking that presents itself as an alternative compliant with Islamic faith values. The narrow positioning of Islamic banking simply as an alternative to fixed-interest products does not provide an adequate or compelling differentiation incentive for a significant number of Muslims. The survey results show that 21.08% (n = 74) participants do not see a difference between Islamic and conventional banking. This is a high percentage in terms of lack of participants’ differentiation, even though the majority of the survey participants, 71.79% (n = 252) view Islamic and conventional banking as two different alternatives.
Islamic banking would benefit from introducing broader and greater levels of differentiation by placing a higher emphasis on other ethical features in their products’ design and showcasing their compliance with core Islamic principles and ethical values. Promotion of Islamic banking products solely as an interest-avoidance product offering is not sufficient to achieve a distinctive measure of banking differentiation. Below I have listed an illustrative sample of the comments that were submitted by some of the participants regarding differentiation of Islamic banking from conventional banking:

“On the face of it, yes. However, under scrutiny it is clear that in a world of debt financing, Islamic banking has moved away from certain Shari’ah principles.”

“I think that the difference is that most Islamic banks take advantage of them being called Islamic to charge higher “interest rates” and provide not too good customer services.”

“I have a bank account that is Islamic. Honestly, I believe it’s the same but they use Islamic terms to name their products. But eventually, all banks are the same!”

Of the 344 participants, 61.05% (n = 210) believe that Islamic banking offers a religious alternative to conventional banking, whereas only 15.99% (n = 55) believe that it does not and 18.90% (n = 65) reported that they do not know whether it does or does not offer a religious alternative. These results demonstrate that there is a clear interest-avoidance religious differentiation between Islamic and conventional banking, with Islamic banking being a religious alternative. This also clearly confirms the assertions of my thesis in that regulatory accommodation of Islamic banking could lead to an increase in Muslims’ financial inclusion.
While many Muslims may have mixed views in terms of Islamic banks’ profitability, cost of products, complexity of services, or whether Islamic banking is simply copying conventional banking at a premium, the interview and survey participants reported that they need a religious alternative and that they should be accommodated in order to increase their inclusion in the financial system.

Many of the interview participants who use Islamic banking shared that they are comfortable with getting lesser profits and paying higher premiums in return for having an Islamic banking alternative that gives them peace of mind and supports their religious compliance. Some of them shared with me that they would never use conventional banking and are very grateful to have an option. Below I have listed an illustrative sample of the comments that were submitted by some of the survey participants regarding assessing Islamic banking as a religious alternative:

“The difference is both religious and based on a business model of sharing risks equally between parties.”

“However, at a prohibitive cost. At this point, personally, I avoid borrowing and pay whatever I need in full.”

“Could be a yes for those who believe in that interest is forbidden though there is a disguised conventional banking in Islamic banking as well when it comes to investments, loans, *Murabaha*, and other instruments, also when it comes to products.”

Participants were asked whether Muslims should shift their banking practices from conventional to Islamic banks. Of the 260 participants, 51.47% (n = 135) reported “Yes,” 21.18% (n = 52) reported “No,” and 19.41% (n = 62) reported that they do not know. In order to further explore the participants’ assessment of the reasons that should compel
Muslims to shift from using conventional banking to Islamic, they were asked to rank a list of reasons to justify the shift. Of the 260 participants, 79.62% (n = 207) ranked use of interest, 28.85% (n = 75) ranked stability, and only 12.69% (n = 33) ranked competitiveness. Government support and wide community adoption ranked the lowest by the participants. Figure 16 illustrates the ranking as reported by the participants.

Figure 16. Reported ranking of reasons for shifting from conventional to Islamic banking.

Figure 16 indicates that the primary reason the survey participants selected for justifying shifting from using conventional banking to Islamic is the use of interest. During the course of my interviews, I have discovered that the majority of participants who use conventional banking, if not all, do not use their conventional banking borrowing or saving services because they believe that interest is equivalent to Riba. This indicates that while these participants may have access to conventional banking deposit services, they are excluded from saving and borrowing financial services. They have opted to exclude
themselves from using these financial services in order to comply with their faith values even though they are using conventional banking deposit services.

These survey results indicate that Muslims have a high level of consensus and uniformity in their religious view that considers the use of interest equivalent to Ribā, which is a sin according to Islamic beliefs that is to be avoided in their perspective whether they use Islamic or conventional banking. This outcome affirms the theory’s assertions and further emphasizes the importance of the role Islamic banking could play in increasing Muslims’ financial inclusion. Below I have listed an illustrative sample of the comments that were submitted by some of the participants:

“If someone feels compelled or prefers Islamic banking, they should be allowed that option if available.”

“I do not know how to answer this question; the only reason I go for Islamic banking is that they are called Islamic and offer some products that are Shari’ah compliant.”

Participants reported that the differentiation between Islamic and conventional banking is not primarily based on differences in their business model(s), competitiveness, or product structure, but primarily on religious identification. Religion is reported as the dominant differentiation factor between Islamic and conventional banking by the majority of the survey participants. This confirms that Islamic banking has an important role to play in increasing Muslims’ financial inclusion. While this differentiation is not significant for using deposit accounts in either system, it is very high for borrowing and savings differentiation. The survey participants reported significant religious differences between Islamic and conventional business models based on use of fixed interest, which is forbidden
in Islam. The majority of the interview participants reported that they would not use these services offered by conventional banking even if they were conventional banking users.

**Accommodation of Islamic Banking**

Of the 346 participants, 74.24% (n = 257) reported that their country should accommodate Islamic banking, 15.02% (n = 52) reported they do not know if it should accommodate, and 6.65% (n = 23) reported that it should not be accommodated. It is important to note that not all Islamic countries have accommodated the use of Islamic banking and finance. Additionally, Islamic banking remains a niche in most of the Islamic countries that have accommodated it. For example, Islamic banking has become systemically important only in twelve Islamic countries, and it remains inaccessible to millions of Muslims who need banking services compliant with their faith values.

Of the 347 participants, 62.25% (n = 216) reported that Islamic banking is important to economic development in their country, 14.12% (n = 49) reported that it is not, and 21.04% (n = 73) reported that they do not know whether it is important or not. Participants reported that the linkage between Islamic banking requirements to funding real economic projects such as construction, agriculture, and manufacturing leads to creation of jobs and alleviates poverty. Islamic banking prohibits trading in debt to generate profits. Survey participants reported that investments in Islamic banking are expected to be linked to job generation and concrete economic activities that they viewed favorably. Figure 17 illustrates the participants’ views on the role of Islamic banking in economic development.
Figure 17. Assessment of the importance of Islamic banking in economic development.

The result of the survey provides a strong consensus that there is a need to accommodate Islamic banking. This result affirms the assertions in my thesis and supports the need for regulatory accommodation of Islamic banking. The majority of the survey and interview participants reported that the accommodation of Islamic banking is necessary for three reasons: (i) they consider having access to Islamic banking vital for economic development and growth in their country; (ii) they value having alternative options and the benefit of having freedom of choice; and (iii) a significant number of the survey participants reported that Islamic banking is important for Muslims because their faith forbids them from using fixed-interest products.
The participants expressed mixed views on whether Islamic banking is or is not Islamic; however, many participants do support having the freedom of choice, value having banking alternatives that support their financial inclusion, and concur that having access to alternative investment options compliant with Islamic faith values is important to economic development in their countries. Below I have listed an illustrative sample of the comments that were submitted by some of the participants:

“There is a lot of excess liquidity in funds, especially in rural northern Nigeria. Having a system of banking that people in this area feel is more ethical will help mop up that excess liquidity and inject more investible funds in the financial system.”

“Developing countries can benefit from Sukuk issuance as it is excellent financing tool.”

In summary, whether the participants do or do not use Islamic banking, the majority have reported that there is a need to accommodate Islamic banking to support those who wish to use it for religious reasons. They also reported that Islamic banking is important for economic development and financial inclusion. These results affirm my theory’s assertions and provide evidence that Islamic banking is vital for increasing Muslims’ financial inclusion.

5.1.2 Regulatory Accommodation Online Survey Analysis

Survey participants who are subject matter experts in Islamic banking were asked to fill out the Islamic Banking Regulatory Accommodation Survey using an online survey program (SurveyMonkey). The survey participants are members of the Islamic Economic
Forum on WhatsApp. The forum comprises bankers, regulators, and academic researchers from all over the world who have expert knowledge of Islamic banking and finance.

The survey was configured to prevent multiple submissions by the same participant. All participants completed a computer survey consisting of open-ended and forced-choice questions. Participants were asked to provide demographic information, including age, gender, religion, marital status, educational level, profession, years of experience, country of origin, and country currently living or working in. The survey sample reflects the racial, gender, and ethnic composition of the social media groups that were asked to participate in the survey.

While the number of the Islamic banking expert participants in the survey is small, forty-one participants, and their geographical distribution is not homogeneous, the collective expert assessment is based on the participants’ expert knowledge and practical experience in Islamic banking. The survey and this study does not attempt to identify variations in religious interpretations of Islamic banking rules in different Islamic denominations. This dimension is out of the scope of this study research. The study derives this part of the research assessment based on analyzing the results as provided by the expert participants in this survey.

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5 WhatsApp is a social media platform that enables social media collaboration via smartphone technology. There are two groups on WhatsApp.
**Procedure**

Participants were asked to fill out the survey using an online survey program (SurveyMonkey). Requests for participation were posted on the Islamic Economic Forum group, and a web link was provided to the participants. The survey included an online informed consent for participating in the survey as well declaration of the purpose of the survey and intended survey data use. The survey did not collect any personally identifiable information (PII), and all participants were informed that the survey is anonymous. The survey was designed to be completed in sixty minutes or less. The survey included my contact information to answer any questions by the participants regarding the survey questions or the research study.

**Participants**

The expert participants were 41 members of the Islamic Economic Forum social media groups (5 female, 36 male; 27 Muslims, 13 non-Muslim; 16 regulators, 24 bankers; 6 Shari’ah scholars, and 16 academic researchers); the participants’ years of experience in Islamic banking ranged between one and 15 years with 31.7% participants having over 15 years of experience. The participants reported that they live in the following countries: Australia (n = 1), Jordan (n = 1), India (n = 3), Indonesia (n = 1), Lebanon (n = 1), Malaysia (n =1), Nigeria (n = 14), Saudi Arabia (n = 1), Pakistan (n = 6), Switzerland (n = 1), United Arab Emirates (n = 3), United Kingdom (n = 3), and United States (n = 5).
Measures

Differentiation of Islamic banking. Participants were asked to rank challenges facing Islamic banking, rank the main drivers a person should consider in adopting Islamic banking, and rank a list of actions Islamic banks should consider for increasing their share of the global market. Lastly, the participants were asked to assess the importance of the role of Shari‘ah audit in Islamic banking.

Regulatory accommodation of Islamic banking. Participants were asked whether their country has tailored its regulatory framework to support Islamic banking. If Islamic banking was not offered in the participant’s country, they were asked whether the regulatory framework should be tailored to accommodate Islamic banking. Participants were asked to provide suggestions to improve the regulatory framework in their country to accommodate Islamic banking and to assess the role of Shari‘ah audit in Islamic banking and finance.

Islamic banking as an alternative. Participants were asked whether Islamic banking offers a religious alternative and to provide comments as to why they believe that is the case. Participants were asked to offer their views on the importance of Islamic banking to social justice, protecting society from harm, and eradicating poverty. Participants were asked to rank a list of reasons a person should consider adopting Islamic banking.

Results

Below, I analyze the survey results to assess the differentiation of Islamic banking and whether the participants believe that Islamic banking should be accommodated and, if
so, why. Also, I assess the participants’ perspectives on the importance of Islamic banking as a religious alternative and its role in financial inclusion and economic development.

**Differentiation of Islamic banking**

The expert participants were asked to rank challenges facing Islamic banking. Table 3 lists the ranking as reported by the participants.

<table>
<thead>
<tr>
<th>Challenge</th>
<th>Participants</th>
<th>Rank</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lack of product standardization</td>
<td>26</td>
<td>9.77</td>
</tr>
<tr>
<td>Lack of corporate governance</td>
<td>23</td>
<td>9.35</td>
</tr>
<tr>
<td>Perception among Muslims that Islamic banking is not truly Islamic because it simply imitates conventional banking</td>
<td>31</td>
<td>8.42</td>
</tr>
<tr>
<td>Lack of Shari'ah scholars who speak English</td>
<td>25</td>
<td>8.36</td>
</tr>
<tr>
<td>Lack of education and/or awareness among Muslim customers</td>
<td>26</td>
<td>8.04</td>
</tr>
<tr>
<td>Lack of necessary infrastructure in the accounting and financial software systems required to support Islamic banking products</td>
<td>31</td>
<td>7.97</td>
</tr>
<tr>
<td>Lack of government accommodation of Islamic banking in the regulatory framework</td>
<td>26</td>
<td>7.96</td>
</tr>
<tr>
<td>Lack of conformity and/or consensus among Shari’ah scholars</td>
<td>27</td>
<td>7.85</td>
</tr>
<tr>
<td>Lack of ability to compete effectively against conventional banking</td>
<td>35</td>
<td>7.54</td>
</tr>
<tr>
<td>Competition from conventional bankers</td>
<td>29</td>
<td>7.48</td>
</tr>
<tr>
<td>Lack of Shari’ah governance</td>
<td>25</td>
<td>7.2</td>
</tr>
<tr>
<td>Lack of Shari’ah governance</td>
<td>21</td>
<td>7.00</td>
</tr>
<tr>
<td>Lack of liquidity instruments</td>
<td>24</td>
<td>6.75</td>
</tr>
<tr>
<td>Lack of Shari’ah scholars fluent in finance</td>
<td>24</td>
<td>6.63</td>
</tr>
</tbody>
</table>

The top three challenges selected by the expert participants were lack of product standardization, lack of corporate governance, and the perception among Muslims that Islamic banking is not truly Islamic. In the qualitative interviews, I plan to further assess this perception and its impact on Muslims’ use and adoption of Islamic banking services. It is interesting to note that the expert participants ranked lack of government accommodation of Islamic banking in the regulatory framework as the seventh most
important challenge and lack of Islamic banking ability to compete equally and effectively against conventional banking as the eighth most important challenge. These results are consistent with the assessment provided by the financial inclusion survey participants. The inclusion survey participants, 57.65% (n = 196), reported that Islamic banking is able to compete equally against conventional banking.

The expert participants were asked to rank the drivers a person should consider for adopting Islamic banking. Table 4 provides a list of the drivers and their ranking as reported by the expert participants.

<table>
<thead>
<tr>
<th>Drivers</th>
<th>Participants</th>
<th>Rank</th>
</tr>
</thead>
<tbody>
<tr>
<td>Offering of competitive financial products and services</td>
<td>26</td>
<td>7.23</td>
</tr>
<tr>
<td>Prohibition of coercion</td>
<td>21</td>
<td>6.76</td>
</tr>
<tr>
<td>Prohibition of gambling</td>
<td>27</td>
<td>6.33</td>
</tr>
<tr>
<td>Support for social justice (Zakah)</td>
<td>23</td>
<td>6.04</td>
</tr>
<tr>
<td>Prohibition of monopoly</td>
<td>26</td>
<td>6.00</td>
</tr>
<tr>
<td>Prohibition of Riba (use of interest)</td>
<td>26</td>
<td>5.85</td>
</tr>
<tr>
<td>Support for protecting society from harm</td>
<td>27</td>
<td>5.85</td>
</tr>
<tr>
<td>Prohibition of exploitation</td>
<td>25</td>
<td>5.72</td>
</tr>
<tr>
<td>Prohibition of hoarding</td>
<td>24</td>
<td>5.54</td>
</tr>
<tr>
<td>Conservative business model in which profit and loss are shared by borrower and lender</td>
<td>28</td>
<td>5.54</td>
</tr>
<tr>
<td>Economic growth based on a business model that requires financing tangible activities such as trade or manufacturing</td>
<td>27</td>
<td>4.67</td>
</tr>
</tbody>
</table>

The top three drivers for adopting Islamic banking as ranked by the expert participants were offering competitive financial products and services, prohibition of coercions, and prohibition of gambling. The expert participants ranked the prohibition of Riba as the sixth most important driver for adopting Islamic banking. They also ranked profit-and-loss sharing as the driver with the second lowest importance for adopting
Islamic banking and finance and ranked economic growth the driver with the least importance. In contrast, the financial inclusion survey participants ranked avoiding use of interest as the top most important driver a person should consider for shifting from use of conventional banking to Islamic banking, and 34.38% (n = 120) participants reported that Islamic banking is not offering competitive products. The experts placed greater emphasis on offering competitive products and on stressing Islamic ethical values such as Islamic proscriptions of gambling, coercion, monopoly, and the importance of charity as the driver for adoption, and Muslim consumers placed greater value on adopting Islamic banking primarily as an alternative to help them avoid *Riba*.

The experts were asked to rank actions Islamic banks should undertake to expand their market share. Table 5 illustrates the ranking as reported by the expert participants.

<table>
<thead>
<tr>
<th>Table 5: Reported Ranking for Expanding Islamic Banking Market Share</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Actions</strong></td>
</tr>
<tr>
<td>Improve and expand the offerings of Shari'ah-compliant liquidity instruments</td>
</tr>
<tr>
<td>Improve compliance with Basel II and Basel III standards</td>
</tr>
<tr>
<td>Support and fund education programs to expand the number of available Shari'ah scholars</td>
</tr>
<tr>
<td>Strengthen corporate governance</td>
</tr>
<tr>
<td>Fund and sponsor the development of required accounting and financial software to address the financial management of Islamic banking</td>
</tr>
<tr>
<td>Encourage governments to tailor their regulatory frameworks to accommodate Islamic banking and finance</td>
</tr>
<tr>
<td>Improve compliance with AAOIFI standards</td>
</tr>
<tr>
<td>Support and fund education programs to improve the bankers’ understanding of Islamic banking products</td>
</tr>
<tr>
<td>Strengthen customer relations and build trusted partnerships</td>
</tr>
<tr>
<td>Strengthen Shari'ah governance</td>
</tr>
<tr>
<td>Build the bank reputation as socially responsible entity</td>
</tr>
</tbody>
</table>
The experts placed strengthening *Shari’ah* governance as the sixth most important action for expanding Islamic banking market share. This is an interesting result. One of the biggest challenges facing Islamic banking is the perception that it is Islamic in name only and that it does not uphold the true objectives of *Shari’ah*. Demonstrating that Islamic banks and Islamic banking products are compliant with *Shari’ah* is dependent on having independent *Shari’ah* governance. Of the 351 inclusion survey participants, 21.08% (n = 74) reported that there is no difference between Islamic and conventional banking. Strengthening *Shari’ah* governance and building the bank reputation as a socially responsible entity could reduce this percentage.

The expert participants were asked whether it is important to have *Shari’ah* governance in Islamic banking. Of the 41 participants, 75.61% (n = 31) reported that it is necessary for Islamic banks to have *Shari’ah* governance to ensure compliance with *Shari’ah* guidance, 14.63% (n = 6) reported that it is not necessary, and 9.76% (n = 4) selected that they do not know. While 31 experts reported that it is necessary for Islamic banks to have *Shari’ah* governance, they ranked it as the sixth most important element in increasing Islamic banking market share. This result could indicate that while the experts consider *Shari’ah* governance important, they may have placed greater emphasis on offering more competitive Islamic banking products. Below I have listed an illustrative sample of the comments that were submitted by some of the participants:

“*The audit aims to provide internal clarity (for the bank itself) and it also aims to provide external clarity (for consumers and all other stakeholders).*”
“It’s like having a legal, audit, or risk department in a conventional bank. You cannot imagine a bank without them.”

The financial inclusion survey and interview participants reported that the ability of Islamic banking to demonstrate a clear connection between its Islamic product offerings and Islamic principles is rather limited because Islamic banking products’ offerings seem to be designed primarily to avoid interest. One of the experts commented that the design of Islamic banking products and its similarity to interest-based product offerings in conventional banking is driven by the non-availability of practical regulations supporting Islamic banking and its methodology. This commentary affirms my theory’s assertion in that there is a need to accommodate the particulars of Islamic banking products’ design and offerings to realize the goals of its core principles. Below I have listed two comments that were submitted by the expert participants:

“A common criticism of Islamic banking is that it’s the same as conventional banking and it’s only Islamic in name. A very painful statement indeed, but it owes a lot towards non-availability of practical regulations supporting Islamic banking and its methodology.”

“Many Islamic banks clone conventional products and do not follow the fundamentals of Islamic economics.”

The expert participants differentiate Islamic and conventional banking not only based on religious drivers, but also based on the ability to offer competitive products, the ability to scale and expand the market share through training programs, and the ability to comply with regulatory expectations. The assessment of challenges facing Islamic banking and ranking of actions to expand Islamic banking market share exhibit gaps between
experts and consumers of Islamic banking that require further research analysis that is outside the scope of my study.

**Regulatory Accommodation of Islamic Banking**

The expert participants were asked to report whether their country accommodated the operation of Islamic banking and finance. Of the 41 participants, 51.22% (n = 21) reported that their country accommodates Islamic banking, 36.59% (n = 15) reported that their country does not accommodate Islamic banking, and 12.20% (n = 5) reported that they either do not know or selected other. They were asked whether their country should accommodate the operation of Islamic banking and finance. Of the 24 participants, 62.50% (n = 15) reported that their country should accommodate Islamic banking, 16.67% (n = 4) reported that it should not, and 20.83% (n = 5) selected either that they do not know or other. This result affirms my thesis’s assertion in that there is a need to accommodate Islamic banking. Below I have listed an illustrative sample of the comments that were submitted by some of the participants:

“The current system does not allow Islamic banking to fully work. The Swiss system forbids aspects that are essential for Islamic finance to work perfectly.”

“Freedom of religion is enshrined in the US constitution and there Muslims have a right to Islamic banking. But since banking is such a sensitive field, it needs regulation particularly in light of the high leverage of banks and the information asymmetry between customers and banks.”

The expert participants were asked whether countries that do not offer Islamic banking services should tailor their regulatory framework to accommodate Islamic banking. Tailoring of Islamic regulation is defined in this study as having adapted the
country’s regulatory framework to support the operation of Islamic banking. They were also asked to provide suggestions to improve the regulatory framework in order to accommodate Islamic banking. Of the 41 participants, 75.61% (n = 31) responded that they have suggestions for improving their country’s regulatory framework to increase the accommodation of Islamic banking, 9.76% (n = 4) reported that they do not have any suggestions, and 14.63% (n = 6) selected that they do not know. Below I have listed an illustrative sample of the comments that were submitted by some of the participants:

“There is a need for putting in place an environment that promotes Islamic banking financial stability and sound development.”

“Accounting and legal system should widen their scope to accommodate the requirements of Shari’ah banking.”

The results of regulatory accommodation assessment by the experts reflects that there is a need to improve the regulatory framework to increase the accommodation of Islamic banking. Of the 41 experts, 75.61% (n = 31) responded that they have suggestions for increasing the accommodation of Islamic banking. This result strongly affirms the assertions of my thesis.

**Islamic Banking as an Alternative**

The expert participants were asked to assess whether Islamic banking offers an ethical alternative to conventional banking. Of the 38 participants, 71.05% (n = 27) reported that Islamic banking offers an ethical alternative to conventional banking, 21.05% (n = 8) reported that it is not an ethical alternative, and 7.89% (n = 3) noted that they do not know. The expert participants were asked to assess whether Islamic banking offers a
religious alternative. Of the 39 participants, 66.67% (n = 26) reported that Islamic banking does offer a religious alternative to conventional banking, 25.64% (n = 10) reported that it does not offer a religious alternative, and 7.69% (n = 3) selected that they do not know. This result is consistent with that of the financial inclusion survey outcome, considering that 61.05% (n = 210) of the financial inclusion survey participants reported that Islamic banking does offer a religious alternative.

The expert participants were asked to assess whether Islamic banking offers products that protect society from harm. Of the 41 participants, 70.73% (n = 29) reported that Islamic banking is important for protecting society from harm, 21.95% (n = 9) reported that it is not important, and 7.32% (n = 3) selected that they do not know. This result indicates that the expert group places greater emphasis on the ethical values inherent in the design of Islamic banking and consider it a key component of its business model.

The expert participants were asked to assess whether Islamic banking offers products that are important for Muslims’ financial inclusion. Of the 40 participants, 65% (n = 26) reported that Islamic banking is important for financial inclusion and eradication of poverty, 22.50% (n = 9) reported that it is not, and 12.50% (n = 5) selected that they do not know. This result is consistent with the assessment provided by the financial inclusion survey participants, of whom 68.86% (n = 241) stated that Islamic banking is important for Muslims’ financial inclusion. However, I would have expected to see a higher percentage by both the experts and the financial inclusion survey participants. Nevertheless, the experts’ assessment result is high and is aligned with the reported result submitted by the
inclusion participants. This outcome affirms the assertions of my theory and indicates that Islamic banking is critical for Muslims’ financial inclusion. Below I have listed an illustrative sample of the comments that were submitted by some of the participants:

“Shari’ah banking is related to meeting financial needs in compliance with Shari’ah norms.”

“Poor Muslims’ access to short-term and long-term financing can surely help in removing poverty.”

“There are thousands of Muslims not buying properties due to the interest-based loans and they do not want to be deprived of ownership but they do because they want to avoid Riba (interest).”

The expert participants have demonstrated a high level of consensus that Islamic banking provides a religious and ethical alternative to Muslims. This banking alternative is also considered, by the expert participants, important for protecting society from harm because it provides socially responsible products and services from their perspective. This result is consistent with the assertions of my theory in that providing a religious alternative compliant with Islamic values could lead to an increase in Muslims’ financial inclusion.
5.1.3 Altman Z-score Model Analysis

Based on normative decision theory, the research propositions of my study assume that Muslims who have access to Islamic financial services that are compliant with their faith values are expected to select Islamic banking services over conventional counterparts. The study assumes that Muslims adopt faith-compliant financial services due to their religious beliefs, even if they are made available to them at a higher cost, hence leading to an increase in Muslims’ financial inclusion. The goal of my study is to examine the validity of such assumptions using the Z-score model, financial inclusion indicators, and regulatory accommodation policy approaches.

Hypothesis Development

For the quantitative part of the research analysis, I use agency theory to develop and test the following hypotheses:

H1. There is a positive relationship between regulatory accommodation and the stability of Islamic banks.

H2. There is a positive relationship between the stability of Islamic banks (z-score) and Muslims’ financial inclusion.

Method

I use the descriptive research method to analyze the relationship between regulatory accommodation and Muslims’ financial inclusion. The descriptive research method examines the research question as it exists in its current state. I use this method to
investigate relational questions using financial stability facts, financial inclusion facts, and regulatory accommodation approaches to develop generalizations that contribute to theory. Additionally, I use this method for the identification of attributes of a particular phenomenon or the exploration of correlations between datasets to describe it.

**Procedure**

I use the Altman Z-score model to measure Islamic banks’ stability. Using this quantitative model, I measure IBs’ financial health using corporate income and a balance sheet of sixty-five Islamic banks in eleven Islamic countries over a period from 2011 to 2016.

Where,

\[ Z\text{-score} = \frac{(ROA + EAR)}{SDROA} \]

**ROA** = Return on Average Assets of a bank calculated as net income divided by average total assets

**EAR** = Equity Adequacy Ratio of a bank calculated as the ratio of equity to total assets

**SDROA** = the standard deviation of ROA over the sample period

Based on Altman’s Z-score model, I calculated the Z-score of sixty-five Islamic banks in eleven Islamic countries using corporate income and a balance sheet over a period

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from 2011 to 2016. In order to assess if there is a positive relationship between regulatory accommodation and Islamic banking stability, I examined whether there is a positive correlation the between the Z-score of Islamic banking in each country and the policy approach used to regulate Islamic banking. This analysis is used to validate and test the following hypothesis assumption:

**H1. There is a positive relationship between regulatory accommodation and the stability of Islamic banks.**

I used Takioullah Khan’s definitions of the Islamic regulatory approaches classification as well as the IMF’s classifications of supervisory modes. The regulatory accommodation policy approaches used in this study include:

1. Policy approach: Governments provide policy support and a level playing field to develop Islamic financial services in an orderly and resilient manner;

2. Engineering approach: Governments treat Islamic financial services as a matter of financial engineering and product development by service providers; and

3. Hybrid approach: A mix of both approaches depending on the level of importance and impact.

The supervisory modes refer to the regulatory approach used to adapt the country’s regulatory framework to accommodate Islamic banking and finance. Islamic countries

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7 Inwon Song and Carel Oosthuizen, "Islamic Banking Regulation and Supervision: Survey Results and Challenges," *International Monetary Fund*, December 1, 2014, [http://dx.doi.org/10.5089/9781498380928.001](http://dx.doi.org/10.5089/9781498380928.001) (accessed July 18, 2017).

typically use one of three supervisory modes to accommodate IBF, including using a single regulatory framework for IBs and CBs, adding specific references to address the regulatory requirements for IBF in a single framework, or creating a separate regulatory framework adapted to regulate IBF. These are listed in Table 6.

<table>
<thead>
<tr>
<th>Country</th>
<th>Regulatory Approach</th>
<th>Central Bank has Shari’ah Board</th>
<th>Single Regulatory Framework for All Banks</th>
<th>Single Regulatory Framework with References to IBF</th>
<th>Separate Regulatory Framework for Islamic Banks</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bahrain</td>
<td>Hybrid</td>
<td>Yes</td>
<td>*</td>
<td>*</td>
<td></td>
</tr>
<tr>
<td>Bangladesh</td>
<td>Policy</td>
<td>Yes</td>
<td>*</td>
<td>*</td>
<td></td>
</tr>
<tr>
<td>Indonesia</td>
<td>Policy</td>
<td>No</td>
<td>*</td>
<td>*</td>
<td></td>
</tr>
<tr>
<td>Jordan</td>
<td>Hybrid</td>
<td>No</td>
<td>*</td>
<td>*</td>
<td></td>
</tr>
<tr>
<td>Kuwait</td>
<td>Hybrid</td>
<td>No</td>
<td>*</td>
<td>*</td>
<td></td>
</tr>
<tr>
<td>Malaysia</td>
<td>Policy</td>
<td>Yes</td>
<td>*</td>
<td>*</td>
<td></td>
</tr>
<tr>
<td>Pakistan</td>
<td>Policy</td>
<td>Yes</td>
<td>*</td>
<td>*</td>
<td></td>
</tr>
<tr>
<td>Qatar</td>
<td>Hybrid</td>
<td>No</td>
<td>*</td>
<td>*</td>
<td></td>
</tr>
<tr>
<td>Saudi Arabia</td>
<td>Engineering</td>
<td>No</td>
<td>*</td>
<td>*</td>
<td></td>
</tr>
<tr>
<td>Turkey</td>
<td>Engineering</td>
<td>No</td>
<td>*</td>
<td>*</td>
<td></td>
</tr>
<tr>
<td>UAE</td>
<td>Policy</td>
<td>Yes</td>
<td>*</td>
<td>*</td>
<td></td>
</tr>
</tbody>
</table>

I examined whether there is a positive relationship between the regulatory accommodation approaches and the stability of Islamic banks. My assumption is that a policy-level accommodation should lead to the highest level of stability because it provides the most optimal level of regulatory accommodation of Islamic banking compared to the engineering and hybrid regulatory accommodation approaches. I use the results of the median Z-score of Islamic banking in each country compared to the country’s Z-score level to assess stability. I also assess profitability of Islamic banking based on their median NIM results in each country. I use this analysis to validate and test the following hypotheses:
H1. There is a positive relationship between regulatory accommodation and the stability of Islamic banks.

I also examined whether there is a positive correlation between the median Z-score of Islamic banking in each country and the World Bank financial inclusion indicators as well as Islamic banking’s market share, which is measured as a percentage of the country’s total banking assets. I use this analysis to validate and test the following hypothesis assumption:

H2. There is a positive relationship between the stability of Islamic banks (Z-score) and Muslims’ financial inclusion.

Measures

Regulatory approaches and supervisory model by country. Different regulatory approaches and different supervisory modes are used in the Islamic countries that accommodated the use of Islamic banking and are within the scope of my study.

Median Z-score of Islamic banking by country (2011 – 2016). I calculated the Z-score values of the Islamic banks selected in each country in the study including Bahrain (BHF), Bangladesh (BD), Jordan (JOR), Kuwait (KWT), Malaysia (MYS), Indonesia (IDN), Pakistan (PAK), Qatar (QAT), Saudi Arabia (SAU), Turkey (TUR), and United Arab Emirates (ARE) between 2011 and 2016. The selected Islamic banks are fully Shari’ah-compliant and are included in the Islamic Financial Stability Board (IFSB) tracking list. I have listed the Islamic banks in the scope of my study in Appendix A.
Results

I calculated the Z-score for each Islamic bank for each year in the sample study (2011–2016) using the Z-score model. Next, I calculated the median Z-score for each year for all the Islamic banks in each country. The higher the Z-score value, the more stable the bank condition, according to the Z-score model. Table 7 provides the summary of my Z-score calculation by country.

<table>
<thead>
<tr>
<th></th>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>BAH</td>
<td>12.09</td>
<td>11.47</td>
<td>8.75</td>
<td>8.91</td>
<td>9.28</td>
<td>9.02</td>
</tr>
<tr>
<td>KWT</td>
<td>14.95</td>
<td>14.31</td>
<td>15.14</td>
<td>14.98</td>
<td>15.89</td>
<td>13.78</td>
</tr>
<tr>
<td>MYS</td>
<td>8.46</td>
<td>8.38</td>
<td>9.29</td>
<td>10.10</td>
<td>10.54</td>
<td>11.11</td>
</tr>
<tr>
<td>IND</td>
<td>12.28</td>
<td>10.67</td>
<td>7.39</td>
<td>13.44</td>
<td>12.34</td>
<td>10.54</td>
</tr>
<tr>
<td>PAK</td>
<td>14.16</td>
<td>12.28</td>
<td>14.59</td>
<td>11.32</td>
<td>9.68</td>
<td>16.77</td>
</tr>
<tr>
<td>QAT</td>
<td>8.64</td>
<td>9.09</td>
<td>10.00</td>
<td>12.11</td>
<td>13.36</td>
<td>13.46</td>
</tr>
<tr>
<td>SAU</td>
<td>10.11</td>
<td>10.92</td>
<td>13.42</td>
<td>12.54</td>
<td>15.49</td>
<td>15.31</td>
</tr>
<tr>
<td>TUR</td>
<td>9.14</td>
<td>9.40</td>
<td>9.40</td>
<td>10.09</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>UAE</td>
<td>14.92</td>
<td>10.99</td>
<td>13.42</td>
<td>10.36</td>
<td>14.05</td>
<td>10.91</td>
</tr>
</tbody>
</table>

I calculated the median Z-score for each country over the study period (2011-2016). I assigned a value for each regulatory accommodation approach with policy approach assigned (1), engineering approach (2), and hybrid approach (3). In addition, I have assigned a value for each supervisory mode with (A) a single regulatory framework for all banks, (B) a single regulatory framework with references to IBF, (C) a separate regulatory
framework for Islamic banks. The rest of the data including country median Z-score,\(^9\) IBF market share,\(^10\) policy approach, and supervisory mode are sourced from multiple datasets. The total assets of Islamic banking represent approximately 78.9% of the total global Islamic banking assets.\(^11\) Based on the percentages of Islamic market share in 2016 as reported by the IFSB, Islamic banking has become systemically important in five of the Islamic countries in the scope of this study including MYS, KWT, JOR, SAU, and QAT.\(^12\) Table 8 provides the results of this calculation.

<table>
<thead>
<tr>
<th>Country</th>
<th>Median IBF Z-score</th>
<th>Median Country Z-score</th>
<th>IBF Market Share</th>
<th>Regulatory Approach</th>
<th>Supervisory Mode</th>
</tr>
</thead>
<tbody>
<tr>
<td>IND</td>
<td>12.34</td>
<td>5.05</td>
<td>&lt;15%</td>
<td>1</td>
<td>C</td>
</tr>
<tr>
<td>PAK</td>
<td>11.32</td>
<td>11.21</td>
<td>&lt;15%</td>
<td>1</td>
<td>C</td>
</tr>
<tr>
<td>MYS</td>
<td>10.54</td>
<td>16.77</td>
<td>23.8%</td>
<td>1</td>
<td>C</td>
</tr>
<tr>
<td>BGD</td>
<td>11.08</td>
<td>7.77</td>
<td>&lt;15%</td>
<td>1</td>
<td>C</td>
</tr>
<tr>
<td>UAE</td>
<td>10.91</td>
<td>26.91</td>
<td>19.6%</td>
<td>1</td>
<td>B</td>
</tr>
<tr>
<td>SAU</td>
<td>15.31</td>
<td>14.45</td>
<td>51.1%</td>
<td>2</td>
<td>B</td>
</tr>
<tr>
<td>KWT</td>
<td>14.98</td>
<td>15.01</td>
<td>39%</td>
<td>2</td>
<td>B</td>
</tr>
<tr>
<td>QAT</td>
<td>13.36</td>
<td>23.36</td>
<td>26.6</td>
<td>2</td>
<td>B</td>
</tr>
<tr>
<td>TUR</td>
<td>10.09</td>
<td>7.83</td>
<td>&lt;15%</td>
<td>2</td>
<td>B</td>
</tr>
<tr>
<td>JOR</td>
<td>10.18</td>
<td>32.75</td>
<td>28%</td>
<td>3</td>
<td>B</td>
</tr>
<tr>
<td>BAH</td>
<td>9.02</td>
<td>15.28</td>
<td>&lt;15%</td>
<td>3</td>
<td>B</td>
</tr>
</tbody>
</table>

---


\(^12\) Ibid., 8.
I use this result to examine the following hypothesis:

**H1. There is a positive relationship between regulatory accommodation and the stability of Islamic banks.**

The analysis results demonstrate that the median Z-scores for Islamic banking in five of the countries in the scope of the study including IND, PAK, BGD, SAU, and TUR are higher than that of the country’s median Z-score. This result reflects a positive relationship between regulatory accommodation and Islamic banking stability in these countries. The results of the policy regulatory accommodation approach, however, show that the median Z-score of Islamic banking is higher than that of the country in IND, PAK, and BGD, whereas in MYS and UAE it is lower. These results are not completely consistent with the theory’s assertions. My expectations were that a policy-level regulatory accommodation would lead to the highest levels of Islamic banking stability. The results of the engineering regulatory approach also show that QAT and KWT have a lower median Z-score of Islamic banking than that of the country. The hybrid policy regulatory accommodation approach shows that the median Z-score of Islamic banking is lower than that of the country in JOR and BAH.

While the results show that five of the countries have a positive relationship between regulatory accommodation and Islamic banking whose median Z-score is higher than that of the country, six of the countries show that their Islamic banking sector has a lower level of stability than that of the country. Based on these results, it is not conclusive whether the policy regulatory accommodation approach could lead to the highest level of
stability even though three of the countries that have applied that approach show that their Islamic banking sector has a higher level of stability.

The variation of the results of the Islamic banking median Z-scores could be impacted by the variation in the supervisory modes that are applied in each country. Policy and hybrid approaches support the use of the Islamic profit-and-loss business model. Engineering policy approaches support Islamic financial products such as Murabaha and Ijarah, which are somewhat similar to financial products offered in conventional banking business models. The results of the stability analysis do not lead to an affirmative and conclusive affirmation of the H1 hypothesis, despite the observation that there is a positive median Z-Score relationship in five of the eleven countries. Further detailed analysis at a country level needs to be undertaken to validate this aspect of the hypothesis.

**Median Net Interest Margin Analysis**

I calculated the median net interest margin ratio for Islamic banking by country for each year in the scope of the study. This financial indicator is valuable for assessing whether the Islamic banking business model is profitable or not. Net interest margin measures the difference between the income generated by Islamic banks and the amount they pay out to their lenders (customers) relative to the amount of their earning assets. This ratio is similar to the gross margin (or gross profit margin) of non-financial companies. It is considered a measure of the bank’s profitability. In conventional banking, this ratio is usually expressed as a percentage of what the financial institution earns on loans in a time
period and other assets minus the interest paid on borrowed funds divided by the average amount of the assets on which it earned income in that time period.

Next, I calculated the median net interest margin of Islamic banking for each country across the years in the scope of my research study, and based on this calculation I identified the median net interest margin for all countries across all years. The median Islamic banking net interest margin ratio calculation result was 3.27%, which indicates that Islamic banking demonstrates that it runs a profitable business model. The NIM for Islamic banking in all of the Islamic countries throughout 2011 and 2016 is positive except in Malaysia. The results of the median NIM in Malaysia need further analysis to examine why the Islamic banking sector has negative median NIM results. Of the eleven countries, the Islamic banking sector demonstrates business profitability in ten of them. Table 9 provides the results of this calculation.

Table 9: Median Net Interest Margin in Islamic Banking

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>BAH</td>
<td>2.94</td>
<td>2.84</td>
<td>2.80</td>
<td>2.81</td>
<td>2.39</td>
<td>2.41</td>
</tr>
<tr>
<td>BGD</td>
<td>3.33</td>
<td>3.21</td>
<td>3.16</td>
<td>3.41</td>
<td>4.34</td>
<td>3.89</td>
</tr>
<tr>
<td>JOR</td>
<td>9.47</td>
<td>4.48</td>
<td>4.48</td>
<td>4.37</td>
<td>3.00</td>
<td>2.62</td>
</tr>
<tr>
<td>KWT</td>
<td>2.86</td>
<td>2.80</td>
<td>2.79</td>
<td>2.94</td>
<td>2.96</td>
<td>2.74</td>
</tr>
<tr>
<td>MYS</td>
<td>-1.98</td>
<td>-2.50</td>
<td>-2.06</td>
<td>-2.15</td>
<td>-2.26</td>
<td>-1.91</td>
</tr>
<tr>
<td>IND</td>
<td>2.78</td>
<td>4.82</td>
<td>6.79</td>
<td>3.85</td>
<td>3.72</td>
<td>2.81</td>
</tr>
<tr>
<td>PAK</td>
<td>3.04</td>
<td>3.91</td>
<td>13.50</td>
<td>12.62</td>
<td>90.24</td>
<td>12.67</td>
</tr>
<tr>
<td>QAT</td>
<td>2.04</td>
<td>2.24</td>
<td>2.46</td>
<td>2.24</td>
<td>2.33</td>
<td>2.34</td>
</tr>
<tr>
<td>SAU</td>
<td>2.92</td>
<td>2.87</td>
<td>3.04</td>
<td>3.39</td>
<td>3.53</td>
<td>3.41</td>
</tr>
<tr>
<td>TUR</td>
<td>4.18</td>
<td>4.41</td>
<td>4.64</td>
<td>4.15</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>UAE</td>
<td>2.98</td>
<td>3.34</td>
<td>3.22</td>
<td>3.10</td>
<td>3.53</td>
<td>3.33</td>
</tr>
</tbody>
</table>
I did not attempt to calculate the median conventional banking’s net interest margin ratio to evaluate Islamic banking’s profitability relative to conventional banking because this is outside the scope of my study. Based on the qualitative interviews, on average the participants reported that Islamic banking offers 2% or 3% lower profit margins compared to conventional banking. I did not attempt to verify the reported difference as it is outside the scope of my study. Participants who use Islamic banking indicated that despite such lower profit margins, they are satisfied with the using this form of banking due to religious reasons.

**Financial Inclusion Indicators by Country**

I selected a list of financial inclusion indicators by country from the World Bank’s Global Findex database. The Global Findex database provides in-depth data on financial inclusion including data on how individuals save, borrow, make payments, and manage risks. It is used to consistently measure people’s use of financial services across countries and over time. Unfortunately, this database captures only 2011 and 2014 data. It does not cover all of the years in my study. This is an area of weakness in my study in terms of the completeness of the data on financial inclusion in accordance with scope of the years I have included in the study (2011–2016.)

I calculated the correlation factors between Islamic banking median Z-scores in 2011 and Findex’s financial inclusion indicators reported for the same year. Next, I

---

followed up with calculating the correlation factors between Islamic banking median Z-scores in 2014 and Findex’s financial inclusion indicators reported for the same year. Despite not having Findex financial inclusion indicators for the years 2012, 2013, 2015, and 2016, my study’s research design approach is repeatable and standard for vetting, verification, and re-evaluating the correlation results based on future years that would be valuable for future research studies.

I selected eight Findex financial inclusion indicators for the purpose of correlation due to the completeness of the reported datasets by country. The list of Findex indicators that I have selected in this study include the use of checking accounts, saving accounts, debit cards, and borrowing from a financial institution. I also use two additional financial indicators using the IMF World Economic Outlook dataset to capture the percentage of bank deposits to GDP as well as the number of available ATMs per 100,000 adults. Table 10 provides a list of the Findex indicators as well as their definitions. Table 11 includes a list of the IMF Economic Outlook indicators and their definitions. Table 12 includes a list of the Findex financial inclusion indicators. Table 13 includes a list of the World’s Economic Outlook Financial Inclusion Indicators.
**Table 10: List of the World Bank’s Findex Global Financial Inclusion Indicators**

<table>
<thead>
<tr>
<th>Findex Indicator</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>X1</td>
<td>Account (% age 15+) Denotes the percentage of respondents who report having an account</td>
</tr>
<tr>
<td>X2</td>
<td>Account at a financial institution, male (% age 15+) Denotes the percentage of male respondents who report having an account at a bank or another type of financial institution</td>
</tr>
<tr>
<td>X3</td>
<td>Account at a financial institution, female (% age 15+) Denotes the percentage of female respondents who report having an account at a bank or another type of financial institution</td>
</tr>
<tr>
<td>X4</td>
<td>Borrowed from a financial institution (% age 15+) Denotes the percentage of respondents who report borrowing any money from a bank or another type of financial institution</td>
</tr>
<tr>
<td>X5</td>
<td>Saved at a financial institution (% age 15+) Denotes the percentage of respondents who saved any money from a bank or another type of financial institution</td>
</tr>
<tr>
<td>X6</td>
<td>Debit card (% age 15+) Denotes the percentage of respondents who report having a debit card</td>
</tr>
</tbody>
</table>

**Table 11: The IMF World Economic Outlook Financial Inclusion Indicators**

<table>
<thead>
<tr>
<th>X7</th>
<th>Bank deposits to GDP (%) Denotes the percentage of deposits to gross domestic product</th>
</tr>
</thead>
<tbody>
<tr>
<td>X8</td>
<td>ATMs per 100,000 adults Denotes the number of ATMs per 100,000 adults in the country</td>
</tr>
</tbody>
</table>

**Table 12: The World Bank’s Findex Financial Inclusion Indicators (2011, 2014)**

<table>
<thead>
<tr>
<th></th>
<th>X1</th>
<th>X2</th>
<th>X3</th>
<th>X4</th>
<th>X5</th>
<th>X6</th>
</tr>
</thead>
<tbody>
<tr>
<td>BHR</td>
<td>64.51</td>
<td>81.94</td>
<td>78.98</td>
<td>90.25</td>
<td>26.01</td>
<td>25.22</td>
</tr>
<tr>
<td>BGD</td>
<td>31.74</td>
<td>30.99</td>
<td>37.29</td>
<td>32.93</td>
<td>48.78</td>
<td>66.74</td>
</tr>
<tr>
<td>KWT</td>
<td>86.77</td>
<td>72.91</td>
<td>92.70</td>
<td>79.30</td>
<td>79.61</td>
<td>64.00</td>
</tr>
<tr>
<td>MYS</td>
<td>66.17</td>
<td>80.67</td>
<td>69.22</td>
<td>83.01</td>
<td>63.10</td>
<td>78.09</td>
</tr>
<tr>
<td>PAK</td>
<td>10.31</td>
<td>13.04</td>
<td>17.28</td>
<td>14.21</td>
<td>2.95</td>
<td>3.02</td>
</tr>
<tr>
<td>QAT</td>
<td>65.88</td>
<td>65.00</td>
<td>68.57</td>
<td>..</td>
<td>61.57</td>
<td>..</td>
</tr>
<tr>
<td>SAU</td>
<td>46.42</td>
<td>69.41</td>
<td>72.72</td>
<td>75.33</td>
<td>15.23</td>
<td>61.15</td>
</tr>
<tr>
<td>TUR</td>
<td>57.60</td>
<td>56.68</td>
<td>82.06</td>
<td>69.00</td>
<td>32.68</td>
<td>44.28</td>
</tr>
<tr>
<td>UAE</td>
<td>59.73</td>
<td>83.74</td>
<td>68.78</td>
<td>89.76</td>
<td>47.21</td>
<td>66.32</td>
</tr>
<tr>
<td>Country</td>
<td>X7 2011</td>
<td>X7 2014</td>
<td>X8 2011</td>
<td>X8 2014</td>
<td></td>
<td></td>
</tr>
<tr>
<td>---------</td>
<td>---------</td>
<td>---------</td>
<td>---------</td>
<td>---------</td>
<td></td>
<td></td>
</tr>
<tr>
<td>BHR</td>
<td>68.57</td>
<td>70.64</td>
<td>..</td>
<td>..</td>
<td></td>
<td></td>
</tr>
<tr>
<td>BGD</td>
<td>43.55</td>
<td>47.78</td>
<td>3.62</td>
<td>5.65</td>
<td></td>
<td></td>
</tr>
<tr>
<td>JOR</td>
<td>95.79</td>
<td>93.69</td>
<td>27.88</td>
<td>29.93</td>
<td></td>
<td></td>
</tr>
<tr>
<td>KWT</td>
<td>60.38</td>
<td>68.61</td>
<td>49.93</td>
<td>56.09</td>
<td></td>
<td></td>
</tr>
<tr>
<td>MYS</td>
<td>116.86</td>
<td>124.45</td>
<td>53.39</td>
<td>52.17</td>
<td></td>
<td></td>
</tr>
<tr>
<td>IDN</td>
<td>30.36</td>
<td>32.82</td>
<td>16.49</td>
<td>49.48</td>
<td></td>
<td></td>
</tr>
<tr>
<td>PAK</td>
<td>27.18</td>
<td>30.16</td>
<td>4.88</td>
<td>7.55</td>
<td></td>
<td></td>
</tr>
<tr>
<td>QAT</td>
<td>46.14</td>
<td>63.12</td>
<td>52.36</td>
<td>65.31</td>
<td></td>
<td></td>
</tr>
<tr>
<td>SAU</td>
<td>23.54</td>
<td>32.69</td>
<td>58.34</td>
<td>70.58</td>
<td></td>
<td></td>
</tr>
<tr>
<td>TUR</td>
<td>46.75</td>
<td>52.74</td>
<td>58.7</td>
<td>76.06</td>
<td></td>
<td></td>
</tr>
<tr>
<td>UAE</td>
<td>59.61</td>
<td>71.18</td>
<td>55.21</td>
<td>61.91</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

I correlate these eight financial indicators with Islamic banking median Z-scores for years 2011 and year 2014 by country as well as Islamic banking market share for years 2011 and 2014 to assess whether there is a correlation between financial inclusion indicators and Islamic banking financial stability and market share indicators. The results of the correlation will be used to verify the second aspect of the hypothesis.

**H2. There is a positive relationship between the stability of Islamic banks (Z-score) and Muslims’ financial inclusion.**

A positive correlation result between financial inclusion indicators and Islamic banking median Z-score for year 2011 and year 2014 as well as with Islamic banking market share for year 2011 and 2014 would provide empirical support that regulatory accommodation of Islamic banking could lead to an increase in financial inclusion.
Correlation of Islamic Banking Median Z-score with Financial Inclusion Factors

The median Z-score for each country was correlated with the financial inclusion indicators in year 2011 and 2014. The correlation results show an increase from 2011 to 2014 in all factors except for borrowing from a financial institution and the availability of ATMs. This result indicates that there is a positive relationship between Islamic banking and financial inclusion. I will conduct further analysis of financial inclusion factor X4 (“Borrowed from a financial institution”) in the qualitative interview section to further explore the significance of this result. The correlation results as indicated in Table 14 indicate that there is a positive correlation between financial inclusion and Islamic banking.

Table 14: Correlation of Islamic Banking with Financial Inclusion Indicators

<table>
<thead>
<tr>
<th>Financial Inclusion Factor</th>
<th>IBF Z-score Correlation Factor</th>
<th>Indicator</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2011</td>
<td>2014</td>
</tr>
<tr>
<td>X1 Account (% age 15+)</td>
<td>-0.3210</td>
<td>-0.0405</td>
</tr>
<tr>
<td>X2 Account at a financial institution, male (% age 15+)</td>
<td>-0.3069</td>
<td>-0.0582</td>
</tr>
<tr>
<td>X3 Account at a financial institution, female (% age 15+)</td>
<td>-0.1652</td>
<td>0.2505</td>
</tr>
<tr>
<td>X4 Borrowed from a financial institution (% age 15+)</td>
<td>-0.3286</td>
<td>-0.3956</td>
</tr>
<tr>
<td>X5 Saved at a financial institution (% age 15+)</td>
<td>-0.0511</td>
<td>0.2491</td>
</tr>
<tr>
<td>X6 Debit card (% age 15+)</td>
<td>-0.2748</td>
<td>0.0205</td>
</tr>
<tr>
<td>X7 Bank deposits to GDP (%)</td>
<td>-0.3809</td>
<td>-0.3440</td>
</tr>
<tr>
<td>X8 ATMs per 100,000 adults</td>
<td>-0.3012</td>
<td>-0.3094</td>
</tr>
</tbody>
</table>

This result provides an empirically a positive confirmation of the second part of the thesis hypothesis:

H2. There is a positive relationship between the stability of Islamic banks (Z-score) and Muslims’ financial inclusion.

The result of this correlation would have been more reliable had there been additional data points on financial inclusion across all the years within the scope of the
study (2011–2016). Nevertheless, even with having to cope with using only two financial inclusion data points for 2011 and 2014, the correlation results still indicate that there exists a positive relationship between financial inclusion and Islamic banking and finance.

**Correlation of Islamic Banking Market Share with Financial Inclusion Factors**

The median market share of Islamic banking (total assets) for each country was correlated with the financial inclusion indicators in 2011 and 2014. The correlation results in Table 15 indicate that there is a positive correlation between financial inclusion and Islamic banking.

### Table 15: Correlation of Islamic Banking Market Share with Financial Inclusion Indicators

<table>
<thead>
<tr>
<th>Financial Inclusion Factor</th>
<th>IBF Market Share Correlation Factor</th>
<th>2011</th>
<th>2014</th>
<th>Indicator</th>
</tr>
</thead>
<tbody>
<tr>
<td>X1 Account (% age 15+)</td>
<td></td>
<td>0.3899</td>
<td>0.4595</td>
<td>Increase</td>
</tr>
<tr>
<td>X2 Account at a financial institution, male (% age 15+)</td>
<td></td>
<td>0.2629</td>
<td>0.4795</td>
<td>Increase</td>
</tr>
<tr>
<td>X3 Account at a financial institution, female (% age 15+)</td>
<td></td>
<td>0.5271</td>
<td>-0.0531</td>
<td>Decrease</td>
</tr>
<tr>
<td>X4 Borrowed from a financial institution (% age 15+)</td>
<td></td>
<td>0.8589</td>
<td>0.3110</td>
<td>Decrease</td>
</tr>
<tr>
<td>X5 Saved at a financial institution (% age 15+)</td>
<td></td>
<td>0.5511</td>
<td>-0.2086</td>
<td>Increase</td>
</tr>
<tr>
<td>X6 Debit card (% age 15+)</td>
<td></td>
<td>0.0721</td>
<td>0.4450</td>
<td>Increase</td>
</tr>
<tr>
<td>X7 Bank deposits to GDP (%)</td>
<td></td>
<td>0.4131</td>
<td>0.5506</td>
<td>Increase</td>
</tr>
<tr>
<td>X8 ATMs per 100,000 adults</td>
<td></td>
<td>-0.1243</td>
<td>0.1799</td>
<td>Increase</td>
</tr>
</tbody>
</table>

The correlation result above shows an increase from 2011 to 2014 in all financial inclusion factors except for female inclusion and borrowing from a financial institution. This result indicates that there is a positive relationship between Islamic banking and financial inclusion. I will conduct further analysis of financial inclusion factor X3 ("Account at a financial institution, female") and of financial inclusion factor X4 ("Borrowed from a financial institution") in the qualitative interview section of the study to further explore the significance of this result.
This result does empirically provide a positive confirmation of the second part of the thesis hypothesis:

**H2. There is a positive relationship between the stability of Islamic banks (Z-score) and Muslims’ financial inclusion.**

The result of this correlation would have been more reliable had there been additional financial inclusion for all the years within the scope of the study (2011–2016). Nevertheless, even with having to cope with using only two years of financial inclusion data for 2011 and 2014, the correlation results do still indicate that there is a positive relationship between financial inclusion and Islamic banking and finance.

5.2 Qualitative Data Analysis

**Jordan: Case Study Financial Practices Interviews**

I interviewed 29 Muslims who live in Jordan in order to assess the impact of Jordan’s regulatory accommodation of Islamic banking on Muslims’ financial inclusion. I selected participants who live in large cities and the surrounding suburbs where Islamic banking is available as an alternative. I did not interview participants who live in remote areas in Jordan without access to Islamic banking services to isolate the factor of remote geographic access to Islamic banking as an adoption constraint.

All of the interview participants have geographical access to Islamic banking services. The participants either lived in Amman, the surrounding suburbs of Amman, Salt, and the surrounding suburbs of Salt, and Aqaba. I traveled to wherever the participants
lived or worked and conducted the interviews and the recordings in person. The participants were randomly selected based on word of mouth in the community and through personal introductions by family and friends.

The selection of the participants in the sample was designed to ensure that I capture a representative sample of the target population with adequate case size and heterogeneity in order to cover the different patterns of religiosity, levels of education, geographical diversity, and income within the community. The interviews took place in Jordan during the month of May in 2017.

**Procedure**

The participants were asked to participate in interviews to capture their daily financial practices and their assessment of Islamic and conventional banking services based on their use and experience and/or based on what they heard about Islamic banking from their friends and family. The participants were informed of the purpose of the interviews and were asked to provide verbal consent for participating before recording the interviews. The recording device and the recording indicator were visible to the participant throughout the interview. The participants were asked to provide their consent for using their interviews in this study before I started the recording. All of the interviews were conducted in the Arabic language. I visited the participants either in their places of work or at their homes.

The interviews were designed to be completed in 60 minutes or less and were based on a semi-structured style to allow the participants to provide open answers and expand on
their experiences. All of the participants were asked the same set of questions, and all of the interviews were translated from Arabic into English. I used NVivo Pro software to apply text analytics and applied NVivo software coding to analyze the interview transcripts.

**Participants**

The interviews included 29 Muslim participants who lived in Jordan (10 female, 19 male); median age = 50; age range = 18–75+); 45% (n = 13) use Islamic banking, 28% (n = 8) use conventional banking, and 28% (n = 8) are unbanked; 42% (n = 12) have high income, 28% (n = 8) have medium income, and 31% (n = 9) have low income. The participants were grouped in three groups based on their use of banking services, level of education, income, and religiosity.

The participants’ measure of religiosity was assessed based on El-Menouar and Stiftung’s five dimensions of Muslim religiosity drawing on Glock’s multidimensional concept of religiosity. The reason why I chose this model for measuring the participants’ Islamic religiosity is that I agree with El-Menouar’s assessment that work in previous studies that simply translated measures of Christian religiosity to Islamic religiosity fails to take into consideration the particular characteristics of Islamic piety.

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15 Ibid.
El-Menouar cites five main problems in previous studies that measure Islamic religiosity based on straightforward translation of Christian religiosity into Islamic religiosity. These problems include (i) a conception of Islamic piety as a one-dimensional construct; (ii) a direct translation of Christian measures into Islamic terminology; (iii) an interpretation of Islamic religiosity based on Christian concepts of religiosity; (iv) the use of indicators that measure more than religiosity; and (v) the lack of reliability and validity.\textsuperscript{16} Table 16 summarizes the main characteristics of the five dimensions of Muslim religiosity.\textsuperscript{17}

\begin{tabular}{|l|l|l|l|l|}
\hline
 & Basic Religiosity & Central Duties & Experience & Knowledge & Orthopraxis \\
\hline
Religiosity on an individual level & Religiosity at a collective level. Differentiates between practicing and non-practicing Muslims & Responsive religious experience & There is no fixed set of knowledge expected to be known by believers. & Counterpart to orthodoxy in Christianity \\
\hline
\hline
\end{tabular}

\textsuperscript{16} Ibid., 54.

\textsuperscript{17} Ibid., 69.
Results

Case study country profile. Based on The Economist Intelligence Unit report’s estimate of 2017 country profile indicators, Jordan’s population is estimated at 10.1 million people; its unemployment rate as a percentage of the total labor force averages 17.9%, and its Gross Domestic Product (GDP) per head at constant rate (Jan 03) averages USD $4,038 per head. In terms of Jordan’s financial inclusion, Table 17 illustrates the list of the indicators used earlier to measure Islamic banking’s market share correlation with median z-score results.

<table>
<thead>
<tr>
<th>Financial Inclusion Indicators</th>
<th>2011</th>
<th>2014</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Account (% age 15+)</td>
<td>25.47</td>
<td>24.62</td>
<td>Decrease</td>
</tr>
<tr>
<td>Account at a financial institution, female (% age 15+)</td>
<td>17.36</td>
<td>15.53</td>
<td>Decrease</td>
</tr>
<tr>
<td>Account at a financial institution, male (% age 15+)</td>
<td>33.67</td>
<td>33.32</td>
<td>Decrease</td>
</tr>
<tr>
<td>Borrowed from a financial institution (% age 15+)</td>
<td>4.47</td>
<td>13.57</td>
<td>Increase</td>
</tr>
<tr>
<td>Borrowed from family or friends (% age 15+)</td>
<td>26.08</td>
<td>17.36</td>
<td>Decrease</td>
</tr>
<tr>
<td>Saved at a financial institution (% age 15+)</td>
<td>8.26</td>
<td>3.76</td>
<td>Decrease</td>
</tr>
<tr>
<td>Bank branches per 100,000 adults</td>
<td>18.29</td>
<td>18.54</td>
<td>Increase</td>
</tr>
<tr>
<td>ATM per 100,000 adults</td>
<td>27.88</td>
<td>29.93</td>
<td>Increase</td>
</tr>
</tbody>
</table>

Of these indicators, three financial inclusion indicators increased from 2011 to 2014. The remaining five indicators decreased. In particular, borrowing from a financial institution has significantly increased from 4.47 to 13.57 percent; bank branches and the availability of ATMs per 100,000 adults also increased. In contrast, the number of accounts held by females and males at a financial institution decreased. Borrowing from family and
friends has also significantly decreased from 26.08 to 17.36%, as well as saving at a financial institution, which has decreased from 8.26% to 3.76%.

Of the sixteen banks operating in Jordan, five are Islamic, including Jordan Islamic Bank, Islamic International Arab Bank, and Safwa Bank, First Finance P.L.C, and Al Israa for Islamic Finance & Investment PLC. I did not include the last two Islamic banks in the scope of the study because they are not listed in the scope of the IFSB annual stability report. These three banks account for twenty-eight percent of Jordan’s banking market share in total assets as of 2016. Their Islamic banking market share in Jordan has increased by 8% from 2012 to 2016 as illustrated in Table 18.18

<table>
<thead>
<tr>
<th>Bank Name</th>
<th>2016</th>
<th>2015</th>
<th>2014</th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jordan Islamic Bank</td>
<td>5,774</td>
<td>5,351</td>
<td>5,007</td>
<td>4,622</td>
<td>4,255</td>
</tr>
<tr>
<td>Islamic International Arab Bank</td>
<td>2,774</td>
<td>2,547</td>
<td>2,210</td>
<td>1,895</td>
<td>N/A</td>
</tr>
<tr>
<td>Safwa Islamic Bank</td>
<td>1,295</td>
<td>1,099</td>
<td>926</td>
<td>744</td>
<td>669</td>
</tr>
<tr>
<td>Total Islamic assets</td>
<td>9,844</td>
<td>8,997</td>
<td>8,143</td>
<td>7,261</td>
<td>4,925</td>
</tr>
<tr>
<td>Total non-Islamic assets</td>
<td>25,708</td>
<td>24,723</td>
<td>22,937</td>
<td>21,034</td>
<td>19,206</td>
</tr>
<tr>
<td>% Islamic Market Share</td>
<td>28%</td>
<td>27%</td>
<td>26%</td>
<td>26%</td>
<td>20%</td>
</tr>
</tbody>
</table>


Jordan Islamic Bank is the first Islamic bank that started offering Islamic banking products in Jordan as early as 1979. It started its operations with about two million Jordanian dinars in capital of its authorized four million Jordanian dinars. It currently

operates 75 branches and 29 cash offices in different locations in the country as well as 211 ATMs. It roughly supports 903,000 accounts.

The Islamic International Arab Bank started offering its retail and business Islamic banking products in 1998.\(^{19}\) It has 41 branches and 66 ATMs.\(^{20}\) It offers its services in 12 major cities in Jordan. It also provides internet banking services. Safwa Islamic bank (Jordan Dubai Islamic bank previously) started offering its Islamic banking products in 2010. It offers branch services throughout Jordan in 25 locations and operates 40 ATMs. Additionally, Safwa bank offers e-channel banking services including mobile banking, internet banking, and phone banking.\(^{21}\)

The median Z-scores calculation results for these three Islamic banks show that they have significantly lower results than the Z-score score of the country, as illustrated in Table 19. The country’s Z-score in 2016, as reported by the World Bank, is 31.1, and Jordan’s Islamic Banks’ median Z-score in 2016 is 9.85. While a higher Z-score value indicates a greater measure of financial stability and a lower possibility of bankruptcy, Islamic banks’ Net Interest Margin ratios demonstrate healthy performance and profitability as illustrated in Table 20.


Table 19: Jordan’s Islamic Banking Median Z-scores

<table>
<thead>
<tr>
<th>Bank Name</th>
<th>2016</th>
<th>2015</th>
<th>2014</th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jordan Islamic Bank</td>
<td>9.85</td>
<td>9.69</td>
<td>9.86</td>
<td>11.08</td>
<td>11.4</td>
</tr>
<tr>
<td>Islamic International Arab Bank</td>
<td>9.52</td>
<td>8.47</td>
<td>8.09</td>
<td>9.62</td>
<td>NA</td>
</tr>
<tr>
<td>Safwa Islamic Bank</td>
<td>13.5</td>
<td>10.48</td>
<td>7.58</td>
<td>8.15</td>
<td>8.95</td>
</tr>
<tr>
<td>Islamic banking median Z-score</td>
<td>9.85</td>
<td>9.69</td>
<td>8.09</td>
<td>9.62</td>
<td>10.18</td>
</tr>
<tr>
<td>Country Z-score</td>
<td>31.1</td>
<td>31.1</td>
<td>32.76</td>
<td>33.08</td>
<td>32.75</td>
</tr>
</tbody>
</table>


Table 20: Jordan’s Islamic Banking Net Interest Margins

<table>
<thead>
<tr>
<th>Bank Name</th>
<th>2016</th>
<th>2015</th>
<th>2014</th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jordan Islamic Bank</td>
<td>4.44</td>
<td>4.48</td>
<td>4.48</td>
<td>4.37</td>
<td>4.33</td>
</tr>
<tr>
<td>Islamic International Arab Bank</td>
<td>9.47</td>
<td>4.12</td>
<td>1.36</td>
<td>1.01</td>
<td>1.66</td>
</tr>
<tr>
<td>Safwa Islamic Bank</td>
<td>17.58</td>
<td>15.34</td>
<td>16.04</td>
<td>11.12</td>
<td>1.14</td>
</tr>
</tbody>
</table>

Participants’ Measure of Religiosity

I assessed the participants’ measure of religiosity based on El-Menouar and Stiftung’s five dimensions of Muslim religiosity. The religiosity measure incorporated the participants’ financial practices, professed self-assessment of religiosity, Islamic practices, and assessment of knowledge, experience, and orthopraxis in their Islamic practices. The participants’ measure of religiosity is listed below in Table 21, Table 22, and Table 23.

Table 21: Group 1 — Religiosity of Participants Using Islamic Banking

<table>
<thead>
<tr>
<th>Code</th>
<th>Religiosity</th>
<th>Education</th>
<th>Income</th>
<th>Gender</th>
<th>Age</th>
</tr>
</thead>
<tbody>
<tr>
<td>26-212343</td>
<td>Orthopraxis</td>
<td>College</td>
<td>High</td>
<td>M</td>
<td>38</td>
</tr>
<tr>
<td>9-312142</td>
<td>Orthopraxis</td>
<td>No College</td>
<td>Medium</td>
<td>M</td>
<td>50</td>
</tr>
<tr>
<td>27-212343</td>
<td>Knowledge</td>
<td>College</td>
<td>High</td>
<td>M</td>
<td>43</td>
</tr>
<tr>
<td>3-312462</td>
<td>Knowledge</td>
<td>College</td>
<td>Medium</td>
<td>F</td>
<td>51</td>
</tr>
<tr>
<td>4-312462</td>
<td>Knowledge</td>
<td>College</td>
<td>Medium</td>
<td>M</td>
<td>52</td>
</tr>
<tr>
<td>22-212323</td>
<td>Experience</td>
<td>College</td>
<td>High</td>
<td>M</td>
<td>32</td>
</tr>
<tr>
<td>23-312323</td>
<td>Experience</td>
<td>College</td>
<td>High</td>
<td>M</td>
<td>42</td>
</tr>
<tr>
<td>14-611243</td>
<td>Experience</td>
<td>No College</td>
<td>High</td>
<td>M</td>
<td>75</td>
</tr>
<tr>
<td>5-312462</td>
<td>Experience</td>
<td>College</td>
<td>Medium</td>
<td>M</td>
<td>51</td>
</tr>
<tr>
<td>15-312343</td>
<td>Experience</td>
<td>College</td>
<td>High</td>
<td>M</td>
<td>49</td>
</tr>
<tr>
<td>28-61122</td>
<td>Basic</td>
<td>No College</td>
<td>Medium</td>
<td>M</td>
<td>78</td>
</tr>
<tr>
<td>21-312323</td>
<td>Basic</td>
<td>College</td>
<td>High</td>
<td>M</td>
<td>38</td>
</tr>
<tr>
<td>25-312343</td>
<td>Basic</td>
<td>College</td>
<td>High</td>
<td>M</td>
<td>52</td>
</tr>
</tbody>
</table>

Table 22: Group 2 — Religiosity of Participants Using Conventional Banking

<table>
<thead>
<tr>
<th>Code</th>
<th>Religiosity</th>
<th>Education</th>
<th>Income</th>
<th>Gender</th>
<th>Age</th>
</tr>
</thead>
<tbody>
<tr>
<td>10-611262</td>
<td>Experience</td>
<td>College</td>
<td>Medium</td>
<td>M</td>
<td>84</td>
</tr>
<tr>
<td>12-441151</td>
<td>Experience</td>
<td>No College</td>
<td>Low</td>
<td>F</td>
<td>55</td>
</tr>
<tr>
<td>11-311443</td>
<td>Central</td>
<td>College</td>
<td>High</td>
<td>M</td>
<td>54</td>
</tr>
<tr>
<td>13-411443</td>
<td>Basic</td>
<td>Graduate</td>
<td>High</td>
<td>F</td>
<td>56</td>
</tr>
<tr>
<td>24-312523</td>
<td>Basic</td>
<td>College</td>
<td>High</td>
<td>M</td>
<td>45</td>
</tr>
<tr>
<td>29-31233</td>
<td>Basic</td>
<td>College</td>
<td>High</td>
<td>M</td>
<td>54</td>
</tr>
<tr>
<td>2-153211</td>
<td>Basic</td>
<td>College</td>
<td>Low</td>
<td>F</td>
<td>22</td>
</tr>
<tr>
<td>8-61151</td>
<td>Basic</td>
<td>No College</td>
<td>Low</td>
<td>M</td>
<td>78</td>
</tr>
</tbody>
</table>

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Table 23: Group 3 — Religiosity of Unbanked Participants

<table>
<thead>
<tr>
<th>Code</th>
<th>Religiosity</th>
<th>Education</th>
<th>Income</th>
<th>Gender</th>
<th>Age</th>
</tr>
</thead>
<tbody>
<tr>
<td>1-611152</td>
<td>Central</td>
<td>No College</td>
<td>Medium</td>
<td>F</td>
<td>75</td>
</tr>
<tr>
<td>6-312452</td>
<td>Central</td>
<td>College</td>
<td>Medium</td>
<td>F</td>
<td>50</td>
</tr>
<tr>
<td>7-211141</td>
<td>Knowledge</td>
<td>No College</td>
<td>Low</td>
<td>M</td>
<td>33</td>
</tr>
<tr>
<td>16-222151</td>
<td>Experience</td>
<td>No College</td>
<td>Low</td>
<td>F</td>
<td>43</td>
</tr>
<tr>
<td>17-253321</td>
<td>Orthopraxis</td>
<td>College</td>
<td>Low</td>
<td>F</td>
<td>25</td>
</tr>
<tr>
<td>18-312322</td>
<td>Orthopraxis</td>
<td>College</td>
<td>Medium</td>
<td>M</td>
<td>45</td>
</tr>
<tr>
<td>19-32251</td>
<td>Experience</td>
<td>No College</td>
<td>Low</td>
<td>F</td>
<td>42</td>
</tr>
<tr>
<td>20-312141</td>
<td>Experience</td>
<td>No College</td>
<td>Low</td>
<td>F</td>
<td>38</td>
</tr>
</tbody>
</table>

Interviews’ open code categories. I selected Affective Methods for identifying the first cycle of open codes using Emotion Coding and Values Coding.\(^{22}\) For the second cycle of coding, I used the Pattern Coding Method to identify general themes. The reason why I selected Affective Coding is that my research explores subjective qualities of human experience. Saldana recommends the use of this type of coding method when researching emotions, values, conflict, or judgment.\(^{23}\) My research analysis captures my informants’ subjective experience with banking and codifies their values and emotions. Saldana posits that, “affective qualities are core motives for human actions, reaction, and interaction and should not be discounted from our investigations of the human condition.”\(^{24}\)


\(^{23}\) Ibid., 124.

\(^{24}\) Ibid.
I used Emotion Coding to capture the informants’ feeling, emotional tone, and distinctive thoughts on the topic of discussion. I used Value Coding to capture their values, attitudes, and beliefs, which represent his or her worldview. According to Saldana, “a value is the importance we attribute to ourselves, another person, thing, or idea.” In the second cycle of coding, I used Pattern Coding to group the Emotion and Value Coding into summaries of themes. Pattern Codes are explanatory codes that can identify an emergent theme. They are used to summarize first-cycle codes into meaningful units of analysis.

Using NVivo software, in the first cycle of coding, I identified ninety-four Emotion and Value Codes in total. In the second cycle of coding, I identified four Category Codes for grouping the Emotional Codes and nine Category Codes for grouping Value Codes. I used Pattern Coding to identify themes and concepts based on contrasting and comparing the identified Categories to validate the use case assertion that accommodating of Islamic banking leads to an increase in Muslims’ financial inclusion. In the cycle of coding, I identified forty-four Pattern Coding themes, which I used to assess the validity of the assertion that regulatory accommodation of Islamic banking and finance could lead to an increase in Muslims’ financial inclusion.

A description of the identified Value and Emotion Categories through the open coding process is listed below.

---

25 Ibid., 131.
26 Ibid., 236.
Value Code Categories.

- **Use Islamic banking.** Participants who use Islamic banking services were asked why they chose to use Islamic banking services and which services they use. They were also asked to describe their reasons for not choosing to use conventional banking;

- **Use conventional banking.** Participants who use conventional banking services were asked why they chose to use conventional banking services and which services they use. They were also asked to describe their reasons for not choosing Islamic banking;

- **Preferred financial practices.** The participants were asked to describe practices they use to purchase major items such as a car, furniture, a home, weddings, and funerals. The participants were asked to identify their preferred financial practices;

- **Preferred savings practices.** The participants were asked to describe their savings practices including using a bank, buying gold, or buying land. The participants were asked to identify their preferred saving practices;

- **Unbanked financial practices.** Participants who do not use either Islamic or conventional banking were asked to describe why they do not use banking services and to provide reasons for their self-exclusion;

- **Private lending practices.** Participants who took loans from private lending firms were asked to describe these practices and explain why they choose private lending;

- **Islamic cooperation.** The participants were asked to describe their use of Islamic cooperation practices as an alternative to Islamic and conventional banking services. These include Kafalah (charity), Quard al-Hassan (interest-free loan), Sadaqah (charity), Zakah (charity), and Awqaf (trust) practices;

- **Social cooperation.** The participants were asked to describe their use of Jordanian social cooperation practices as an alternative to banking services; and

- **Avoid debt.** The participants were asked to describe their financial practices and based on their descriptions it became clear that regardless of the level of religiosity, all participants do their best to avoid debt.
Emotion Code Categories.

- **Riba is forbidden.** The participants’ sentiment towards Riba was assessed using value coding qualitative analysis. The participants’ sentiment toward Riba as a religious concept was measured based on capturing patterns of their social and religious practices coupled with their emotional expressions towards Riba. I measured the participants’ equating interest with Riba;

- **Debt is a burden.** The participants’ sentiment towards debt was assessed using value coding qualitative analysis. The participants’ sentiment toward debt was measured based on capturing patterns of their social and religious practices coupled with their emotional expressions towards debt;

- **Islamic banking user experience.** Participants were asked to share, based on their experience, their banking user experience and to describe whether there are differences between Islamic and conventional banks; and

- **Conventional banking user experience.** Participants were asked to share, based on their experience, their banking user experience and to describe whether there are differences between Islamic and conventional banks;

**Detailed Analysis of Open Code Categories**

The analysis of the results will factor the participants’ income, education, and religiosity. I used two different types of text analytics using NVivo software. The first is a text hierarchy diagram that processes the interviews’ open codes and renders them in boxes based on their measure of relevance. The larger the size of the box in the hierarchy chart, the higher their relevance. The second text analytics method I used is a word cloud that processes the interview text and identifies the most frequently used words and their relevance. The larger the size of the words in the cloud, the higher their relevance.
5.2.1 Use Islamic Banking

The “Use Islamic Banking” code category assesses Muslims’ banking practices and the primary reasons for their selection of Islamic banking over conventional. I have identified eight Value Codes that capture the reasons for using Islamic banking the participants cited during the course of the interviews and ranked them based on the NVivo software’s captured reference frequency. Table 24 lists the participants’ practices and reasons for selecting Islamic banking.

Table 24: Use Islamic Banking

<table>
<thead>
<tr>
<th>Category</th>
<th>Value Code</th>
<th>Sources</th>
<th>Reference</th>
<th>Dimension</th>
</tr>
</thead>
<tbody>
<tr>
<td>Banking practice</td>
<td>Muslims must follow <em>Fatwa</em></td>
<td>7</td>
<td>10</td>
<td>High</td>
</tr>
<tr>
<td></td>
<td>Use for deposit</td>
<td>4</td>
<td>6</td>
<td>High</td>
</tr>
<tr>
<td></td>
<td>Use for deposit and savings</td>
<td>5</td>
<td>6</td>
<td>High</td>
</tr>
<tr>
<td></td>
<td>Use it due to <em>Fatwa</em> but not convinced</td>
<td>3</td>
<td>6</td>
<td>High</td>
</tr>
<tr>
<td></td>
<td>Use it for borrowing</td>
<td>3</td>
<td>3</td>
<td>Low</td>
</tr>
<tr>
<td></td>
<td>Do not use it for borrowing</td>
<td>3</td>
<td>3</td>
<td>Low</td>
</tr>
<tr>
<td></td>
<td>Use for a long time</td>
<td>3</td>
<td>3</td>
<td>Low</td>
</tr>
<tr>
<td></td>
<td>Do not use it due to poverty</td>
<td>1</td>
<td>2</td>
<td>Low</td>
</tr>
</tbody>
</table>

In terms of religiosity indicators, of the 29 participants, 29% (n = 13) use Islamic banking and finance. Of the 13 participants who use Islamic banking, 15% (n = 2) expressed orthopraxis religiosity, 23% (n = 3) expressed knowledge religiosity, 38% (n = 5) expressed experience religiosity, and 23% (n = 3) expressed basic religiosity.

The most frequent referenced Value Code the participants cited was that Muslims must follow the guidance of their learned Muslim scholars and adhere to officially published religious *fatwas*. Some of the participants stated that they use Islamic banking
solely because the fatwa requires them to do so, even though they are not convinced that Islamic banks are truly Islamic. Their use of Islamic banking was driven by the need to comply with fatwa rulings.

Only 3 of the 13 participants stated that they are using Islamic banking for borrowing services. The rest of the interview participants use it strictly for deposit or for deposit and savings. Participants using Islamic banking services were more comfortable using deposit, savings, and borrowing services compared to participants using conventional banking services. The participants expressed a high level of confidence and relief that they have Islamic banking options. Three of the participants stated that they have been using Islamic banking for a very long time and that if they did not have the option, they would have elected to self-exclude from using deposit banking services due to religious reasons.

This coding result is consistent with the financial inclusion survey outcome, and it validates the assertions of my thesis. Religion is clearly the primary driver for Muslims’ decision to use Islamic banking in order to ensure their compliance with Islamic fatwas, even if some of them are not convinced that Islamic banking is truly Islamic. Below are illustrative examples of the participants’ perspectives and statements on use of Islamic banking services:

“As I told you, in our town people are devout and they are moving more and more towards using Islamic banking because there is a fatwa that instructs us to use this form of banking because it is compliant with our faith values.”

“I have never used conventional banking due to religious reasons. I prefer to use banking services that are compliant with my religious values.”
Based on my analysis of the NVivo software qualitative text analytics as illustrated in Figure 18 and Figure 19, I captured the following three qualitative Pattern Code themes:

- Use of Islamic banking is driven primarily by religious reasons in order to comply with Islamic faith values and to avoid the use of interest;

- Use of Islamic banking due to religious reasons spans the full spectrum of Islamic religiosity scale among the participants from basic to orthopraxis. It is not restricted or limited solely to Muslims with a high level of Islamic religiosity; and

- Participants use Islamic banking primarily for deposits. Very few participants in the interview sample use Islamic banking for borrowing purposes. Three reasons were provided for this exclusion including strong aversion to debt, complexity of borrowing procedures, and difficult economic conditions.
<table>
<thead>
<tr>
<th>Muslims must follow Fatawa and scholars</th>
<th>Use for deposit and saving</th>
<th>Used for a long time</th>
</tr>
</thead>
<tbody>
<tr>
<td>Use for deposit</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Do not use it for borrowing</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Use it due to Fatawa but not convinced</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Use for borrowing</td>
<td></td>
<td>Do not use due to poverty</td>
</tr>
</tbody>
</table>
Figure 19. Use Islamic banking word cloud.
5.2.2 Use Conventional Banking

The “Use Conventional Banking” Code Category assesses Muslims’ banking practices and the primary reasons for selecting conventional banking. I have identified six Value Codes that capture the reasons the participants cited during the course of the interviews and ranked them based on the highest reference frequency. Table 25 lists the participants’ practices and reasons for selecting conventional banking.

<table>
<thead>
<tr>
<th>Category</th>
<th>Value Code</th>
<th>Sources</th>
<th>Reference</th>
<th>Dimension</th>
</tr>
</thead>
<tbody>
<tr>
<td>Banking practice</td>
<td>Use for deposit</td>
<td>6</td>
<td>16</td>
<td>High</td>
</tr>
<tr>
<td></td>
<td>Do not use for borrowing</td>
<td>6</td>
<td>14</td>
<td>High</td>
</tr>
<tr>
<td></td>
<td>Was asked to use by my employer</td>
<td>3</td>
<td>8</td>
<td>High</td>
</tr>
<tr>
<td></td>
<td>Used for a long time</td>
<td>5</td>
<td>7</td>
<td>High</td>
</tr>
<tr>
<td></td>
<td>Use for deposit and saving</td>
<td>2</td>
<td>4</td>
<td>Low</td>
</tr>
<tr>
<td></td>
<td>Do not use it due to poverty</td>
<td>4</td>
<td>4</td>
<td>Low</td>
</tr>
</tbody>
</table>

Of the 29 participants, 29% (n = 8) use conventional banking and finance. Of the 8 participants who use conventional banking, 25% (n = 2) expressed experience religiosity, 12.5% (n = 1) expressed central religiosity, and 38% (n = 5) expressed basic religiosity.

None of the participants who use conventional banking exhibit a knowledge or orthopraxis measure of religiosity. Muslims who have knowledge or orthopraxis levels of religiosity, based on levels of education and income, tend to self-exclude from using conventional banking due to religious reasons.

The most frequent reason cited by the participants for using conventional banking is the purpose of deposits only. Participants were very quick to emphatically state multiple
times during the course of the interviews that they have never used conventional banking for borrowing because they consider use of interest forbidden according to their beliefs. One participant who uses conventional banking for deposit opts to use Islamic banking for borrowing. A number of participants reported that they did not have an option but to use conventional banking deposit services because their employer selected their bank for salary deposits. This result is consistent with the financial inclusion survey results.

Five of the participants stated that the primary reason for not shifting from using conventional banking to Islamic is that they have been using their conventional banks for a long time, the bank’s location is convenient, and that they are confident in their bank’s reputation. Additionally, they affirmed that from their perspectives, since deposit accounts do not entail the use of interest and they do not use their conventional banks for borrowing, they consider themselves compliant with their Islamic faith values.

All of the participants who use conventional banking affirmed multiple times during the course of the interviews they do consider that *Riba* and use of fixed interest are the same and that they are both forbidden in Islam. Regardless of the measure of religiosity, income, or education, all conventional banking interview participants affirmed that use of interest is considered *Riba* and it is a forbidden practice in Islam.

This result affirms my theory’s assertions. While conventional banking users are making great use of deposit services, the majority of them, if not all, are not using it for borrowing or savings services because of their religious values. Below are illustrative
examples of the participants’ perspectives and statements on use of conventional banking services:

“I do not practice taking loans from my conventional bank; therefore, I do not feel compelled to convert to using Islamic banks because I do not take interest loans.”

“We do not use the conventional bank for loans and we do not take interest from our bank. Therefore, I do not believe that there is a religious reason to shift.”

Based on using the NVivo software’s qualitative text analysis, as illustrated in Figure 20 and in Figure 21, I captured the following four Pattern Code themes:

- Participants who are at knowledge or orthopraxis religiosity levels consider using conventional banking altogether forbidden;
- Participants who use conventional banking, at all levels of religiosity, do not use it for borrowing practice;
- Participants at all levels of religiosity unanimously agree that using fixed-interest products is a form of Riba, which is a forbidden practice in Islam;
- A number of the participants use conventional banking for deposit because their employer asked them to use a firm-designated conventional bank for salary deposits.
<table>
<thead>
<tr>
<th>Use for deposit</th>
<th>Do not use it for borrowing</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td>Was asked to use by my employer</td>
<td>Use for deposit and saving</td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Do not use it due to poverty</td>
</tr>
</tbody>
</table>
Figure 21. Use conventional banking word cloud.
5.2.3 Preferred Financial Practices

This set of code categories capture the participants’ financial practices used to buy a car, appliances, furniture, and a home. It also captures the participants’ financial practices used to cover major life events such as sending their children to college and covering the costs of marriage and funerals. The interview questions were open and allowed the participants to describe in detail their preferences, different practices they use, and gave them an opportunity to explain the financial decisions they make within the context of their culture and religious practices.

I identified three Value Codes categories that capture participants’ financial practices, including using cash, borrowing, and renting. The “Use Cash” and “Borrowing” categories have five Value Codes. The “Rent” category uncovered one Value Code only in terms of using rent for housing. Tables 26 covers the “Use Cash” category, which lists the participants’ stated financial practices and ranks them based on NVivo’s text analytics coding software.

<table>
<thead>
<tr>
<th>Category</th>
<th>Value Code</th>
<th>Sources</th>
<th>Reference</th>
<th>Dimension</th>
</tr>
</thead>
<tbody>
<tr>
<td>Use cash</td>
<td>buy a car</td>
<td>10</td>
<td>15</td>
<td>High</td>
</tr>
<tr>
<td></td>
<td>send children to college</td>
<td>11</td>
<td>14</td>
<td>High</td>
</tr>
<tr>
<td></td>
<td>buy appliances or furniture</td>
<td>10</td>
<td>12</td>
<td>High</td>
</tr>
<tr>
<td></td>
<td>cover cost of marriage</td>
<td>10</td>
<td>12</td>
<td>High</td>
</tr>
<tr>
<td></td>
<td>buy a home</td>
<td>6</td>
<td>6</td>
<td>High</td>
</tr>
<tr>
<td></td>
<td>cover cost of funeral</td>
<td>3</td>
<td>3</td>
<td>Low</td>
</tr>
</tbody>
</table>
Using cash to pay for buying a car, sending children to college, buying appliances, or buying furniture is the most preferred and most common financial practice among the majority of the interview participants. All of the participants affirmed that they do not use conventional banking to finance these purchases because they consider fixed-interest loans incompatible with their faith values. Six of the participants stated that they paid cash to buy their homes.

Tables 27 covers the “Borrowing” category, which lists the participants’ stated financial borrowing practices and ranks them based on NVivo’s text analytics coding software.

<table>
<thead>
<tr>
<th>Category</th>
<th>Value Code</th>
<th>Sources</th>
<th>Reference</th>
<th>Dimension</th>
</tr>
</thead>
<tbody>
<tr>
<td>Borrowing</td>
<td>buy appliance or furniture</td>
<td>4</td>
<td>9</td>
<td>High</td>
</tr>
<tr>
<td></td>
<td>buy a car</td>
<td>5</td>
<td>8</td>
<td>High</td>
</tr>
<tr>
<td></td>
<td>buy a home</td>
<td>5</td>
<td>6</td>
<td>High</td>
</tr>
<tr>
<td></td>
<td>send children to college</td>
<td>1</td>
<td>1</td>
<td>low</td>
</tr>
<tr>
<td></td>
<td>cover cost of marriage</td>
<td>1</td>
<td>1</td>
<td>low</td>
</tr>
<tr>
<td></td>
<td>cover cost of funeral</td>
<td>0</td>
<td>0</td>
<td>None</td>
</tr>
</tbody>
</table>

A number of the participants borrow from their *Naqabah* to buy appliances, furniture, land, or a home. The *Naqabah* is a guild or union like organization established based on professional memberships by doctors, lawyers, teachers, etc. Five of the participants used loans from their *Naqabah* to get interest-free or low-interest loans to buy either land or their home. The members pay monthly membership fees to subscribe to their *Naqabah*, which invests the fees to provide services and loans to its members. None of the
interviewed participants used conventional loans to buy their homes. Only one participant used Islamic banking to buy a home.

Of the 29 participants, 16% (n = 4) of the participants stated that they used Islamic banking to finance buying their cars in the past because such loans are compatible with their faith values. However, 2 participants stated that the process was complex and the loan requirements were arduous such that they opted to use cash later on to buy their cars. A few participants stated that the cost margin of their Islamic car loan was not significantly different from loans offered by conventional banks. However, all participants except two stated that they prefer to use cash to buy a car to avoid the burden of debt. One participant shared that she used public transportation for four years until she saved enough cash to buy her car. She did not take a loan to buy her car because she did not want to incur debt.

If the participants did not have cash to buy appliances or furniture, the text analytics indicated that the most popular forms of borrowing to buy appliances or furniture are using a Jordanian social cooperation method called the Jamm’yah, which is a method used in Jordan to borrow without interest from friends and family members, or using Naqabah loans. Only one participant who uses Islamic banking used her Islamic credit card to buy appliances. The rest of the participants used cash, Jamm’yah, or Nazabah to buy their appliances or furniture.

None of the participants used conventional loans to buy appliances, cars, furniture, or to send children to college. None of the participants took loans to cover the cost of weddings or funerals. Using banking services, be it Islamic or conventional, to cover the
cost of appliances, furniture, sending children to college, or paying for a wedding or funeral is not a common practice in Jordan. Social cooperation is the preferred choice for borrowing practices in Jordan.

Four of the participants who could not afford to buy a home or get a loan to buy a home opted to rent. Car leasing is not an available option for long-term use in Jordan. Tables 28 covers the “Rent” category, which lists the participants’ stated financial practices and ranks them based on NVivo’s text analytics coding software.

Table 28: Rent Category

<table>
<thead>
<tr>
<th>Category</th>
<th>Value Code</th>
<th>Sources</th>
<th>Reference</th>
<th>Dimension</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rent</td>
<td>rent home</td>
<td>4</td>
<td>4</td>
<td>High</td>
</tr>
<tr>
<td></td>
<td>rent car</td>
<td>0</td>
<td>0</td>
<td>None</td>
</tr>
</tbody>
</table>

These results affirm that Muslims rely heavily on using cash, using social cooperation, and using Islamic cooperation to meet their financial needs. They rely on these practices in order to avoid using interest. Participants who use Islamic banking are more inclined to borrow and save compared to participants who use conventional banking. The result of this coding affirms my theory’s assertions. Below are illustrative examples of the participants’ perspectives and statements on preferred financial practices:

“We have never taken a loan to buy a car. I have always paid for my car in cash. I do not feel comfortable to have any debt obligation.”

“I pay cash in full. I have never taken a loan for buying any of my cars. If I did not have the money to buy a car, I would take public transportation over taking a loan.”
Based on using the NVivo software’s qualitative text analysis of this Value Category code as illustrated in Figure 22 and in Figure 23, I captured the following four themes:

- Participants prefer to use cash as the first choice to buy a home, cars, appliances, furniture, send children to college, or cover the cost of weddings and funerals;

- Participants prefer to use Islamic and social cooperation borrowing methods as a second preferred choice for buying cars, appliances, furniture, and sending children to college;

- Participants prefer to use Islamic banking borrowing methods to buy a car or a home; and

- Participants do not use conventional banking borrowing methods to buy a home, cars, appliances, furniture, send children to school, or cover the cost of weddings and funerals.
<table>
<thead>
<tr>
<th>Use cash to buy a car</th>
<th>Use cash to send children to college</th>
<th>Use cash to cover wedding expenses</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Use cash to buy appliances or furniture</td>
<td>Borrow to buy a car</td>
<td>Use cash to buy o...</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Borrow to buy appliances or furniture</td>
<td>Rent home</td>
<td>Use Cash to cover c...</td>
</tr>
</tbody>
</table>

Figure 22. Preferred financial practices hierarchy chart.
Figure 23. Preferred financial practices word cloud.
5.2.4 Preferred Saving Practices

The ‘Preferred Saving’ code category assesses Muslims’ saving practices and whether they prefer to use banking for managing their savings. I have identified five Value Codes that capture the participants’ saving practices, which they described during the course of the interviews. I ranked the saving practices based on NVivo software identification of the highest reference frequency. Table 29 lists the participants’ preferred savings practices.

<table>
<thead>
<tr>
<th>Category</th>
<th>Value Code</th>
<th>Sources</th>
<th>Reference</th>
<th>Dimension</th>
</tr>
</thead>
<tbody>
<tr>
<td>Saving is crucial</td>
<td>save using gold</td>
<td>15</td>
<td>25</td>
<td>High</td>
</tr>
<tr>
<td></td>
<td>cannot save due to high cost of living</td>
<td>7</td>
<td>10</td>
<td>High</td>
</tr>
<tr>
<td></td>
<td>save using land</td>
<td>6</td>
<td>8</td>
<td>High</td>
</tr>
<tr>
<td></td>
<td>save using Islamic bank</td>
<td>3</td>
<td>3</td>
<td>low</td>
</tr>
<tr>
<td></td>
<td>save using conventional bank</td>
<td>1</td>
<td>2</td>
<td>low</td>
</tr>
</tbody>
</table>

Of the 29 participants, 52% (n = 15) prefer to use gold as a saving method, 21% (n = 6) prefer to use land as a saving method, and 24% (n = 7) reported they are unable to save due to economic conditions. Of the 29 participants, 3 use Islamic banking as a savings method and only 1 participant uses conventional banking saving services.

Participants reported that they prefer to save using gold as a method to cover sudden short-term needs because it is easy and fast to convert to money. However, land is preferred as a long-term method to build a home, send children to college, or fund costs of weddings. Increasingly, these methods are becoming more difficult to practice due to the high cost of living in Jordan. Of the 29 participants, 24% (n = 7) stated that they are unable to save...
using any method due to the high cost of living and due to their difficult economic conditions. Using banking to manage savings is not a common practice by the participants.

The interview participants prefer using gold and land for their saving practices over banking services. This result affirms my theory’s assertions. Muslims who use Islamic banking are more inclined to use its borrowing and saving services. None of the participants reported that they would save at conventional banks because from their perspective it is considered a form of *Riba*.

Preferences for gold and land are rooted in social practices that have developed over the past hundreds of years in the Islamic world. The participants expressed a higher level of confidence in gold and in land over using banking services for saving. This preference impacts both Islamic and conventional banking services. Below are illustrative examples of the participants’ perspectives and statements on preferred saving practices:

“I have much higher confidence in gold over any currency or land. I always set aside a portion of my savings to buy gold for safe keeping.”

“Land is a long-term investment and its value goes up by keeping it longer than gold.”

Based on using the NVivo software’s qualitative text analysis of this Value Category code as illustrated in Figure 24 and in Figure 25, I captured the following four themes:

- Participants prefer to use gold as a method of savings for short-term needs. It is the most preferred method of savings;

- Participants prefer to use land as a method for long-term savings. They use this method for significant future expenses such as building a home, sending children to college, or covering the cost of weddings:
• Participants do not typically use Islamic or conventional banking services for savings.
<table>
<thead>
<tr>
<th>Save using gold</th>
<th>Cannot save due to economic r...</th>
</tr>
</thead>
<tbody>
<tr>
<td>Save using land</td>
<td>Save using Islamic bank</td>
</tr>
<tr>
<td></td>
<td>Save using conventional bank</td>
</tr>
</tbody>
</table>

Figure 24. Preferred saving practices hierarchy chart.
Figure 25. Preferred saving practices word cloud.
5.2.5 Exclusion from Banking Services

I have identified the “Unbanked Participants” and “Private Lending” Value Code categories to assess this aspect of the unbanked participants’ financial exclusion. This set of code categories assesses Muslims’ exclusion from banking services.

I ranked the “Unbanked” category’s three Value Codes based on the NVivo software’s identification of the highest reference frequency. Table 30 lists the reasons the participants provided for their exclusion from the banking system.

<table>
<thead>
<tr>
<th>Category</th>
<th>Value Code</th>
<th>Sources</th>
<th>Reference</th>
<th>Dimension</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unbanked Participants</td>
<td>unbanked due to poverty</td>
<td>2</td>
<td>11</td>
<td>High</td>
</tr>
<tr>
<td></td>
<td>unbanked due to marriage</td>
<td>2</td>
<td>2</td>
<td>Low</td>
</tr>
</tbody>
</table>

Of the 29 participants, 28% (n = 8) are unbanked. Three of the eight participants rely on their husbands to provide for the family and do not have either a joint bank account or a bank account of their own. According to the World Bank financial inclusion database, financial inclusion of Jordanian women declined by 1.83% from 2011 to 2014. However, of the 10 women in the interview survey, 24% (n = 7) are banked.

Five of the unbanked participants were females who did not use banking services due to poverty. They were excluded from accessing banking services due to poverty. The five unbanked female participants were composed of widows, were divorced, or were deserted\(^{27}\) women who relied on day-to-day low-income jobs and whose income had a high

\(^{27}\) Women whose husbands have left the country and no longer provide them with support or are no longer in contact with them.
degree of fluctuation and uncertainty. None of them had college education. None of them could afford to use banking services.

The second code category that I identified is “Private Lending,” which assesses the financial practices of female participants who are highly religious, uneducated, and very poor. Due to poverty and inability to obtain loans from banks, friends or family, they opted to using private lending firms. Private lending firms are not banks and are not regulated under the central bank authority. They specialize in offering small loans at high interest rates exclusively to women.28 The terms of payment vary from six months to a year. Depending on the size of the loan, the firm does not require a Kafeel, which is a Jordanian financial practice of having someone guarantee that they will pay the loan in case the borrower defaults. The offered interest rates for private lending loans ranged from 20% to 33% depending on the size of the loan and the terms of the payment.

I interviewed unbanked female participants because I wanted to further explore their financial practices and examine the drivers that led some of them to using high-interest loans despite their being highly devout with an orthopraxis measure of religiosity. That seemed very paradoxical to me. At the time I was interviewing some of these women, Jordan announced that it set up a special Zakah fund to provide relief to poor women who have resorted to using private lending and are not able to pay. Islamic cooperation methods

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28 These private lending companies were established to provide women in Jordan with easy access to loans to provide them financial relief and quick access to credit.
were used by the poor and unbanked female participants to alleviate poverty and overcome being trapped in perpetual debt.

I wanted to capture the different Islamic cooperation methods that were provided by Islamic charity centers to support the poor and the unbanked. The Islamic charity centers offer Islamic interest-free *Quard al-Hassan* to poor students as an alternative as well as provide financial welfare to the poor in the community using *Kafalah, Sadaqah*, and *Zakah* Islamic Cooperation methods. One of the Islamic centers that I visited was in the middle of planning a charity programs to relieve poor women from using private lending and free them from their existing debts.

I ranked the six Value Codes under the “Private Lending” code category based on the NVivo software’s identification of the highest reference frequency. Table 31 lists the Value Codes that describe the participants’ exclusion from the banking system.

**Table 31: Private Lending**

<table>
<thead>
<tr>
<th>Category</th>
<th>Value Code</th>
<th>Sources</th>
<th>Reference</th>
<th>Dimension</th>
</tr>
</thead>
<tbody>
<tr>
<td>Private lending</td>
<td>use because of poverty</td>
<td>2</td>
<td>10</td>
<td>High</td>
</tr>
<tr>
<td></td>
<td>it is a form of <em>Riba</em></td>
<td>3</td>
<td>7</td>
<td>High</td>
</tr>
<tr>
<td></td>
<td>I have no choice</td>
<td>2</td>
<td>5</td>
<td>High</td>
</tr>
<tr>
<td></td>
<td>stuck with one loan after the other</td>
<td>4</td>
<td>4</td>
<td>Low</td>
</tr>
<tr>
<td></td>
<td>cannot get a loan from banks</td>
<td>1</td>
<td>3</td>
<td>Low</td>
</tr>
<tr>
<td></td>
<td>use loans at high interest rate</td>
<td>3</td>
<td>4</td>
<td>Low</td>
</tr>
</tbody>
</table>

The poor and unbanked female participants reported that they resorted to this form of lending due to poverty and lack of access to financial banking services. They described being stuck in a perpetual state of indebtedness with having to take one *Riba* loan only to
pay the other. They described feelings of anguish, helplessness, and great measure of religious guilt because they used interest loans, which they considered a terrible sin. They described being stuck in a helpless and perpetual state of indebtedness. Despite having a very high orthopraxis measure of religiosity, the female participants had no choice but to resort to using what they knowingly described as *Riba* debts due to abject poverty. In a recent study published by the World Bank, the poverty headcount ratio at national poverty line was estimated at 14.1% of the population in Jordan.

One of the goals of a well-functioning financial system is to increase financial inclusion because it could spur economic development to alleviate poverty. Having access to credit at a reasonable cost is also an important feature of a well-functioning financial system. The poor and unbanked female participants in my study were not qualified to get loans by either Islamic or conventional banks. However, they clearly had very pressing borrowing needs. Most of them also exhibited very high measures of religiosity.

Islamic banking could possibly add value and apply core Islamic principles by offering broader levels of microfinance lending to these participants or by expanding their use of *Quard al-Hassan*. While these participants are considered high-risk customers from an income perspective, they are high-confidence customers due to their high levels of religiosity. Many of these poor participants were at knowledge or orthopraxis levels of

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29 The World Bank defines the global poverty line, which is the minimum level of income deemed adequate in particular country, at $1.90 per day.

religiosity. Such expansion could potentially increase the differentiation of Islamic banking from conventional in that it would be perceived as a form of banking providing an affordable alternative to poor Muslims to protect them from usury loans. Below are illustrative examples of the participants’ perspectives and statements on their practices of using high-interest loans from private lending firms:

“I use small loan companies to get loans but they charge very high interest. It is very expensive for poor people like me to borrow but we have no choice because this is the only option we have today in case of an emergency or to cover a big expense.”

“There are seven companies that are in this business and I have taken loans from almost all of them. I take one loan after the other to make do with life expenses.”

Based on using the NVivo software’s qualitative text analysis of the “Private Lending” code category as illustrated in Figure 26 and in Figure 27, I captured the following five Pattern Code themes:

- Participants who are unbanked and very poor resort to interest loans despite expressing a high measure of orthopraxis Islamic religiosity. They have no choice;

- Income and education have a significant impact on use of interest loans offered through private lending firms. Low-income and uneducated Muslims tend to fall prey to exploitative financial practices;

- Islamic cooperation methods are used to provide financial relief to poor Muslims. However, these methods are not sufficient for alleviating poverty or expanding financial inclusion;

- Quard al-Hassan loans are not widely offered or widely available to poor and unbanked Muslims; and

- Quard al-Hassan is used by poor students and orphans who use Kafalah cooperation primarily to cover the costs of education.
<table>
<thead>
<tr>
<th>Use because of poverty</th>
<th>It is a form of Riba</th>
</tr>
</thead>
<tbody>
<tr>
<td>I have no choice</td>
<td>Cannot get a loan from banks</td>
</tr>
<tr>
<td></td>
<td>Taking a loan to pay...</td>
</tr>
<tr>
<td>Use loans at high interest</td>
<td>Stuck with one loan after the other</td>
</tr>
<tr>
<td></td>
<td>Must pay high i...</td>
</tr>
</tbody>
</table>

Figure 26. Private lending practices hierarchy chart.
Figure 27. Private lending word cloud.
5.2.6 Islamic Cooperation Practices

This code category assesses the use of Islamic cooperation financial practices as an alternative. I have identified five Value Codes under the “Islamic Cooperation” code category to describe practices the participants covered during the course of the interviews. I ranked these practices based on the NVivo software’s identification of the highest reference frequency. Tables 32 lists these practices.

Table 32: Islamic Cooperation Methods

<table>
<thead>
<tr>
<th>Category</th>
<th>Value Code</th>
<th>Sources</th>
<th>Reference</th>
<th>Dimension</th>
</tr>
</thead>
<tbody>
<tr>
<td>Islamic Cooperation</td>
<td>use Kofalah</td>
<td>4</td>
<td>21</td>
<td>High</td>
</tr>
<tr>
<td></td>
<td>use Sadaqah</td>
<td>2</td>
<td>3</td>
<td>low</td>
</tr>
<tr>
<td></td>
<td>use Zakah</td>
<td>1</td>
<td>2</td>
<td>Low</td>
</tr>
<tr>
<td></td>
<td>use Quard al-Hassan</td>
<td>1</td>
<td>2</td>
<td>Low</td>
</tr>
<tr>
<td></td>
<td>use Waqf</td>
<td>1</td>
<td>2</td>
<td>Low</td>
</tr>
</tbody>
</table>

Islamic cooperation methods are part of the religious practices prescribed by Muhammad in the early days of Islam. The Zakah is one of the five pillars of Islam. All Muslims are required to pay the Zakah to provide support to the poor and disadvantaged members of the community. The distribution of the Zakah can be administered by an Islamic charity, a government Zakah fund, or by the individual giving the Zakah directly. Islamic banks distribute Zakah as it sees best fit. The Sadaqah and Kofalah are individual contributions to alleviate poverty and to sponsor orphan children in the community. Waqf, which is a posthumous living trust set by Muslims, is used to distribute charities to the poor.
The poor and unbanked participants in the survey relied heavily on the *Kafalah*, *Sadaqah*, and *Zakah* distributions provided by the Islamic charity center. *Kafalah* was used by three of the poor and unbanked participants to pay for their basic necessities. The *Zakah* and *Sadaqah*, non-monetary charity in the form of money, food, furniture, or appliances, was also used by all of the poor and unbanked interview participants to cover their basic needs. The poor and unbanked participants used all of these three forms to alleviate poverty and cover their basic needs.

*Quard al-Hassan* is an interest-free loan provided primarily to poor students who are not able to pay their college expenses. Students are expected to pay these loans after they graduate. However, orphan students who are part of the *Kafalah* structure are provided *Quard al-Hassan* but are not expected to pay back their student loans. All of the five poor and unbanked participants were planning to rely on *Quard al-Hassan* in order to cover the cost of children’s education.

Unlike other forms of charity, the *Kafalah* provides an ongoing source of income to cover basic needs such as rent, education, and basic necessities on a monthly basis. Members in the community commit to provide *Kafalah* to cover the needs of the poor and in particular sponsor orphans and widows on an ongoing basis. Islamic cooperation financial practices provide a safety net for the poor who are excluded from the financial system. Their role and impact on financial inclusion is valuable.

Islamic banks do provide a number of these financial offerings to the poor in the community. For example, one of the banks in Jordan converts all of its customers’ late fees
to Zakah instead of considering them a form of profit. This constitutes a major distinction between Islamic and conventional banks that is not readily promoted or is widely known among the survey or interview participants. Additionally, Islamic banks set aside a Zakah fund as part of their operations and cost overhead. This fund is used to alleviate poverty within the community. Islamic banks do also provide Quard al-Hassan, which is an interest-free loan, to a narrow segment of the customers. This is also another aspect that differentiates Islamic banking from conventional. These aspects, albeit not widely known or promoted, affirm my theory’s assertion in that accommodation of Islamic banking could lead to an increase in Muslims’ financial inclusion.

Below are illustrative examples of the participants’ perspectives and statements on using Kafalah, Zakah, Sadaqah, and Quard al-Hassan:

“I do not take loans. The Islamic center helps me with the wedding costs and in the future if my children who are orphan need help with their education, we have the Kafalah system to provide us with support.”

“The Islamic banks provide Quard al-Hassan for personal use to poor families who have a demonstrable need either for covering their children’s education expenses or other personal needs. Quard al-Hassan loans must be paid within a year and require a Kafeel.”

Based on using the NVivo software’s qualitative text analysis of the “Islamic Cooperation” code category as illustrated in Figure 28, I captured the following two Pattern Code themes:

- Poor and unbanked participants rely heavily on Islamic cooperation financial practices to cover their basic financial needs;
- *Kafalah* and *Quard al-Hassan* are the most widely used financial practices among the poor and the unbanked to support college education expenses and support basic financial needs.

Figure 28. Islamic cooperation word cloud.
5.2.7 Social Cooperation Practices

This code category assesses the use of Jordanian social cooperation financial practices as an alternative. I have identified five Value Codes under the “Social Cooperation” code category to describe practices the participants covered during the course of the interviews. I ranked these practices based on the NVivo software’s identification of the highest reference frequency. Tables 33 lists these practices.

<table>
<thead>
<tr>
<th>Social cooperation</th>
<th>Value Code</th>
<th>Sources</th>
<th>Reference</th>
<th>Dimension</th>
</tr>
</thead>
<tbody>
<tr>
<td>use Jamm’yah</td>
<td>12</td>
<td>37</td>
<td>High</td>
<td></td>
</tr>
<tr>
<td>use Diwan</td>
<td>14</td>
<td>22</td>
<td>High</td>
<td></td>
</tr>
<tr>
<td>use Kafeel</td>
<td>4</td>
<td>11</td>
<td>High</td>
<td></td>
</tr>
<tr>
<td>use Naqabah</td>
<td>4</td>
<td>11</td>
<td>High</td>
<td></td>
</tr>
<tr>
<td>use Sandooq</td>
<td>1</td>
<td>1</td>
<td>Low</td>
<td></td>
</tr>
</tbody>
</table>

The participants described five social cooperation financial practices they use to avoid using interest borrowing. The most popular form of social cooperation was using the Jamm’yah, second was the Diwan, third the Kafeel, fourth the Naqabah, and lastly the Sandooq. I will provide a brief description of these social cooperation practices and the participants’ financial preferences for using them. I will also cover some of the trends impacting these practices and their impacts on financial inclusion.

The Jamm’yah. This is a very old social practice used among friends and family to borrow without paying interest. This system is typically managed and run by women in Jordan. They collaborate among each other to collect the contributions on a monthly basis, and the manager of the collection oversees its distribution. Each member is expected to provide a
monthly membership fee, which is collected and allocated to the members based on a scheduled waiting list agreed upon by the members. The most favorite use of the *Jamm‘yah* is to cover education expenses, furniture, appliances, and sometimes jewelry or any items the female participants deem necessary. I found the *Jamm‘yah* cooperation practices very interesting. I am attaching a detailed description by one of the interview participants to illustrate the important role the *Jamm‘yah* plays in providing alternative credit options to members of the Jordanian community. Below, I captured a description of the *Jamm‘yah* system as reported by one of the interview female participants:

I decided to start up this *Jamm‘yah* after I was frustrated with another one that I was a member of in the neighborhood. The manager of that *Jamm‘yah* was very strict in determining whose turn it was to get the funds. There was no voting system and no flexibility to get the collection when and if a sudden need occurred. So, I decided to start my own *Jamm‘yah* and I set it up based on a voting system to determine eligibility as to who is in most need and who is most deserving to get the collection each month. My group is composed of women who are my friends, neighbors, and my own daughters. We have eleven members. Each female member contributes 200JDs a month, and my monthly collection is 2200JDs a month. I do not charge anyone to manage the *Jamm‘yah*. I keep a book to track the contributions and distribution of the collections. I keep track of who could not contribute at any given month. My group is more flexible if a member is not able to contribute at any given month, they are expected to contribute the next month. Thankfully, no one has ever missed a contribution in my group. I have been running my group for one year and half. There are no penalties if a member fails to contribute. We would say to each other and to the member “*There is no strength and no solidarity without faith.*” We understand that this is a hardship and they will need to pay when they are able to resume doing so and cover their obligations. All members are obligated to make their contributions during the cycle of the collection. No one is exempt from meeting their obligation. However, we do understand when and if a member is in a bind and is not able to pay one of the months.
**The Diwan.** This is a very old social practice used by Jordanian tribes to cover major family expenses such as weddings and funerals. The expenses of weddings and funerals are covered collectively by all contributing members of the tribe. In most Jordanian Diwans, only able and gainfully employed males are required to contribute. The elderly, unemployed, or poor men of the tribe are not required to contribute. However, they do equally benefit from the Diwan, which is typically managed and run by elected males of the tribe. The Diwan is used to cover the expenses of feeding the community for three days when a death occurs in the tribe; it is also used to cover days of festivities when a wedding occurs in the tribe; and lastly, it is used to cover the cost of procuring a building, which is typically called the Diwan, in order for the tribe to convene and conduct its affairs.

**The Kafeel.** This is a very old social practice method used to provide a guarantee on behalf of Muslims who wish to incur debt for any given reason. The Kafeel commits to pay on behalf the person who is incurring the debt or the Makfoo in case of a default. This practice is used informally in the community to provide assurance among the members. It is also used formally in Islamic banking. The Kafeel can be either be male or female; however, typically and most often males assume the role of Kafeel. The salaries of the Kafeel and the Makfoo are usually designated as collateral by the lender. This method is usually used in Islamic banking for borrowing to buy major items such as cars or homes. It is not used for other purposes such as buying appliances, furniture, or sending children to college.

**The Naqabah.** This is a fairly new social practice method that recently emerged in the 1960s in Jordan. With the rise of professional associations, doctors, lawyers, teachers, and
other professionals join a guild called Naqabah to which they pay monthly membership fees. The Naqabah manages the members’ retirement fund, provides loans with very small interest (fee) to the members, and invests in assets whose profits are distributed among the members. This method is usually used for borrowing to buy homes, land, and/or appliances.

The Sandooq. The Sandooq is a very rarely used social collaboration method among brothers and sisters to set aside family funds to cover emergencies and provide interest-free loans to send nieces and nephews to college, if needed.

Based on using the NVivo software’s qualitative text analysis of the “Social Cooperation” code category as illustrated in Figure 29 and Figure 30, I captured the following five Pattern Code themes:

- Participants prefer the use of Jamm’yah in order to avoid the use of interest loans to pay for small personal needs such as appliances and furniture;

- Participants prefer the use of the tribal Diwan social collaboration method to cover the community costs of weddings and funerals;

- Participants prefer the use of the Naqabah social collaboration method to cover the cost of major items such as buying land, a home, or a car;

- The Kafeel social collaboration method, while still in place and is broadly used for borrowing, is diminishing and is becoming more difficult to ascertain; and

- Traditional social collaboration methods such Sandooq are disappearing and are not readily available.
Use Jamm'yah | Use Diwan

| Use Naqabah | Use Kafeel |

Figure 29. Jordanian social collaboration practices.
Figure 30. Jordanian social collaboration practices.
### 5.2.8 Avoiding Debt Practices

This code category assesses avoiding debt practices expressed by the participants. I have identified four Value Codes under the “Avoid Debt” code category to describe practices the participants covered during the course of the interviews. I ranked these practices based on the NVivo software’s identification of the highest reference frequency. Tables 34 lists these practices.

<table>
<thead>
<tr>
<th>Category</th>
<th>Value Code</th>
<th>Sources</th>
<th>Reference</th>
<th>Dimension</th>
</tr>
</thead>
<tbody>
<tr>
<td>Avoid debt</td>
<td>avoid using debt</td>
<td>15</td>
<td>68</td>
<td>High</td>
</tr>
<tr>
<td></td>
<td>use cash</td>
<td>16</td>
<td>22</td>
<td>High</td>
</tr>
<tr>
<td></td>
<td>live modestly</td>
<td>8</td>
<td>13</td>
<td>High</td>
</tr>
<tr>
<td></td>
<td>use debit card</td>
<td>8</td>
<td>10</td>
<td>High</td>
</tr>
<tr>
<td></td>
<td>do not use credit card</td>
<td>7</td>
<td>8</td>
<td>High</td>
</tr>
</tbody>
</table>

All of the participants expressed a very strong aversion to debt regardless of their level of education, income, or religiosity. They described why they avoid debt, when it is considered reasonable to assume the risk of being in debt, and emphasized avoidance practices they use to avoid being in debt. While aversion to debt was not expressed solely as a religious practice or religious value as much as it was expressed as a common cultural Value Code, a number of the orthopraxis and knowledge participants referenced religious verses, Islamic traditions, teachings, and values that encourages living modestly, avoiding debt, and the importance of living modestly within one’s means.

Most of the participants, including those who do not use Islamic banking, expressed that the availability of Islamic banking as an alternative option for borrowing does not
materially change their attitude towards debt. While those who used Islamic banking expressed satisfaction that they do have the option should they need to borrow from a bank that offers loans compatible with their faith values, they were very quick to express their resentment towards debt and describe practices they use to avoid being in debt.

The Value Code “Avoid Using Debt” had the highest level of NVivo software frequency reference across all of the interviews, with sixty-eight references expressed by the participants at different parts and repeatedly across all of the interviews. This reference was immediately followed with expressing favorable sentiment towards the practice of using cash. Only three of the participants used credit cards. One of the credit cards was Islamic and the other two were conventional. The participants expressed that they use these cards only if they need to do so on an exception basis and for targeted need. The participants used their debit cards to get cash from the ATM to pay for most of their daily needs. The use of debit or credit cards to pay electronically at a point of services (POS) is not widely used. Most of the participants shared that they prefer to use cash to pay for services and goods they acquire during the course of their daily financial practices.

Avoiding debt, avoiding interest, and living modestly were some of the key concepts the interview participants shared with me to express their identity, ethical values, and their way of life. Some of the participants described these as ethical values that define their identity as Muslims. They shared with me verses from the Quran and quotes from Islamic traditions to affirm these values as part of their collective Islamic heritage and as key aspects of how they view the world. Other participants with basic levels of religiosity
shared with me these values as well as part of their cultural identity and their traditional values, which entails a very high degree of aversion to debt and the importance of living modestly. Whether these values are rooted in Islamic or social traditions, they have a very strong impact on Muslims’ financial practices. These Islamic and traditional values could explain why Muslims in general may not be motivated to use banking borrowing services, whether Islamic or conventional. Below are illustrative examples of the participants’ perspectives and statements on avoiding debt:

“I prefer to be free of debts. A long time ago, I took loans but it was a burden for me and it limited my freedom because debt is an obligation. It constrains life.”

“We do not take loans. We worry if we are to take a loan and something happens such that we fail to make a payment, the car or the house will be taken by the bank.”

Below are illustrative examples of the participants’ perspectives and statements on using credit cards:

“I do not use credit cards because they charge interest and this is forbidden in Islam.”

“We do not use credit cards at all. We do not want to pay fees for using credit cards and we do not want to pay interest on credit cards because interest is forbidden in Islam.”

Below are illustrative examples of the participants’ perspectives and statements on living modestly:

“We are religious people. We do not buy things that require us to have to pay interest. We prefer to avoid having to pay interest and be saddled with the burden of loans.”

“Debt is a ruin and burden for anyone. I live within my modest means.”
Based on using the NVivo software’s qualitative text analysis of the “Avoid Debt” Value Code category as illustrated in Figure 31 and Figure 32, I captured the following five Pattern Code themes:

- All participants, regardless of the level of income, education, or religiosity, prefer to avoid debt;
- All participants, regardless of the level of income, education, or religiosity, prefer to use cash;
- All participants, regardless of the level of income, education, or religiosity, prefer to not use credit cards;
- Participants who have debit cards use them to get cash from the bank. They rarely use them as an electronic method to pay at a point of service (POS);
- All participants, regardless of the level of income, education, or religiosity, expressed the need to live modestly and to not take out loans unless it was necessary.
<table>
<thead>
<tr>
<th>Avoid using debt</th>
<th>Use Cash</th>
</tr>
</thead>
<tbody>
<tr>
<td>Live modestly</td>
<td>Use debit card</td>
</tr>
</tbody>
</table>

Figure 31. Avoiding debt hierarchy chart.
Figure 32. Avoiding debt word cloud.
5.2.9 *Riba is Forbidden*

This code category assesses Muslims’ beliefs towards *Riba* and whether the participants believe that *Riba* is forbidden due to religious beliefs. It also assesses whether they equate the use of interest with *Riba*. I have identified five Emotion Codes that capture the participants’ beliefs, which they described during the course of the interviews. I ranked their beliefs based on the NVivo software’s identification of the highest reference frequency. Table 35 lists the participants’ beliefs.

<table>
<thead>
<tr>
<th>Table 35: <em>Riba is Forbidden</em></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Category</strong></td>
</tr>
<tr>
<td><em>Riba is forbidden</em></td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td></td>
</tr>
</tbody>
</table>

All participants, regardless of the level of their income, education, or religiosity, shared that they believe *Riba* is a sin. They also emphasized that *Riba* is prohibited and is considered one of the major sins in Islam. Additionally, the participants affirmed on multiple occasions that the use of interest in borrowing practices is also considered *Riba*. The participants’ uniformity in terms of perspective and assessment of Riba, use of interest, sin, and prohibition was high. However, the participants, depending on the level of their religiosity, income, and education, varied in terms of their opinion on whether profits on
savings in Islamic banking are the same as interest return on investments in conventional banking.

A few of the participants reported that savings interest offered by Islamic banks or conventional banks were not different. Participants with higher levels of religiosity including experience, knowledge, and orthopraxis disagreed with this assessment. Participants with central and experience levels of religiosity expressed the need to follow issued fatwas on Islamic banking even though they did not see much difference between the two. Table 36 provides the distribution of these perspectives based on income, education, and measure of religiosity.

Table 36: Participants’ Assessment Demographics

<table>
<thead>
<tr>
<th>Question</th>
<th>Belief</th>
<th>Practice</th>
<th>Reason</th>
<th>Religiosity</th>
<th>Income</th>
<th>Education</th>
</tr>
</thead>
<tbody>
<tr>
<td>[Belief] Do you believe that profits on savings in Islamic banking are similar to interest offered on savings by conventional banks?</td>
<td>No</td>
<td>No</td>
<td>PLS</td>
<td>Orthopraxis</td>
<td>High</td>
<td>High</td>
</tr>
<tr>
<td></td>
<td>No</td>
<td>No</td>
<td>PLS</td>
<td>Orthopraxis</td>
<td>Med</td>
<td>Med</td>
</tr>
<tr>
<td></td>
<td>No</td>
<td>No</td>
<td>PLS</td>
<td>Orthopraxis</td>
<td>Low</td>
<td>Low</td>
</tr>
<tr>
<td></td>
<td>No</td>
<td>No</td>
<td>PLS</td>
<td>Knowledge</td>
<td>High</td>
<td>High</td>
</tr>
<tr>
<td></td>
<td>No</td>
<td>No</td>
<td>PLS</td>
<td>Knowledge</td>
<td>Med</td>
<td>Med</td>
</tr>
<tr>
<td></td>
<td>No</td>
<td>No</td>
<td>PLS</td>
<td>Knowledge</td>
<td>Low</td>
<td>Low</td>
</tr>
<tr>
<td></td>
<td>No</td>
<td>No</td>
<td>PLS</td>
<td>Experience</td>
<td>High</td>
<td>High</td>
</tr>
<tr>
<td></td>
<td>Yes</td>
<td>No</td>
<td>Same</td>
<td>Experience</td>
<td>Med</td>
<td>Med</td>
</tr>
<tr>
<td></td>
<td>Yes</td>
<td>No</td>
<td>Same</td>
<td>Experience</td>
<td>Low</td>
<td>Low</td>
</tr>
<tr>
<td></td>
<td>Yes</td>
<td>No</td>
<td>Same</td>
<td>Central</td>
<td>Med</td>
<td>Med</td>
</tr>
<tr>
<td></td>
<td>No</td>
<td>No</td>
<td>fatwa</td>
<td>Central</td>
<td>Low</td>
<td>Low</td>
</tr>
<tr>
<td></td>
<td>Yes</td>
<td>No</td>
<td>Same</td>
<td>Basic</td>
<td>High</td>
<td>High</td>
</tr>
<tr>
<td></td>
<td>Yes</td>
<td>No</td>
<td>Same</td>
<td>Basic</td>
<td>Med</td>
<td>Med</td>
</tr>
<tr>
<td></td>
<td>No</td>
<td>No</td>
<td>fatwa</td>
<td>Basic</td>
<td>Low</td>
<td>Low</td>
</tr>
</tbody>
</table>
This variance in distribution is important to note when assessing Muslims’ financial inclusion based on religious compliance. Islamic religiosity is not monolithic. The intersection of income, education, and religiosity collectively affect the decisions Muslims make when using Islamic or conventional banking services. However, religiosity is not the only factor that impacts their decision-making processes.

It is important to note that none of the participants who reported that they see no difference between Islamic and conventional return on savings used conventional banking to earn interest on savings. Therefore, despite such expressions of doubt, in practice, the participants avoided using conventional banking for savings and for borrowing regardless of their level of income, education, or religiosity. This explains why when analyzing Islamic banking, it is important to note that solely relying on using Islamic religiosity as a measure to research Muslims’ practices and beliefs is not adequate. The intersection of income and education must be also incorporated in the scope of the analysis as well as comparing Muslim practices against their beliefs.

Based on using the NVivo software’s qualitative text analysis of the “Riba is Forbidden” Emotion Code category as illustrated in Figure 33 and Figure 34, I captured the following four Pattern Code themes:

- All participants, regardless of level of income, education, or religiosity, prefer to avoid interest;
- All participants, regardless of level of income, education, or religiosity, believe that Riba is a prohibited sin;
- All participants, regardless of level of income, education, or religiosity, consider fixed interest in borrowing a form of Riba; and
• Participants differed in their assessment of whether profits offered by Islamic banks on savings are similar to interest return offered on savings by conventional banks.
Avoid using interest | Riba is prohibited

Interest is forbidden | Riba is interest | Islamic bank profits are...

Deposit accounts do n...
Figure 34. Riba is forbidden word cloud.
5.2.10 Debt is a Burden

This code category assesses Muslims’ attitude towards debt and assesses whether the participants believe that debt is a burden due to religious beliefs. I have identified four Emotion Codes that capture the participants’ sentiments towards debt, which they described during the course of the interviews. I ranked their beliefs based on the NVivo software’s identification of the highest reference frequency. Table 37 lists the participants’ beliefs.

Table 37: Debt is a Burden

<table>
<thead>
<tr>
<th>Category</th>
<th>Emotion Code</th>
<th>Sources</th>
<th>Reference</th>
<th>Dimension</th>
</tr>
</thead>
<tbody>
<tr>
<td>Debt is a burden</td>
<td>debt is a burden</td>
<td>12</td>
<td>23</td>
<td>High</td>
</tr>
<tr>
<td></td>
<td>free of debt</td>
<td>6</td>
<td>7</td>
<td>High</td>
</tr>
<tr>
<td></td>
<td>debt is an obligation</td>
<td>5</td>
<td>6</td>
<td>High</td>
</tr>
<tr>
<td></td>
<td>debt is heavy</td>
<td>2</td>
<td>2</td>
<td>Low</td>
</tr>
</tbody>
</table>

The participants expressed strong aversion to debt. They considered debt a liability. Their practices for avoiding debt coincided with their sentiment towards debt. Most of the participants reported that they view debt as a burden and they adopt financial practices to ensure that they remain free of debt. Debt is negatively viewed by most of the participants because it is considered a constraint on life. Most of the participants did not have a different sentiment regarding debt whether it is offered by an Islamic bank, conventional bank, or family and friends.

Debt is universally viewed by all the interview participants as a heavy burden to be avoided at all cost regardless of the level of religiosity, income, or education. In particular, participants with orthopraxis level of religiosity considered living debt-free an important
Islamic virtue. However, participants who use Islamic banking expressed that in case they may have to borrow, it is important to have Islamic banking as an option. Users of conventional banking asserted multiple times that they do not use interest loans and they do not save at a conventional bank. Similarly, participants who use Islamic banking and conventional banking expressed an aversion to debt and preferences to use alternative social cooperation methods over using banking borrowing services.

Debt was viewed very negatively by all participants at all levels of religiosity. Some of the participants shared that debt is a moral hazard and that it is important for banking to not offer too much credit to members of the community because of its risks. One of the interview participants compared being in debt to being blind. He described being in debt as a sign of being ruined. Members of the community who assumed high levels of debt for material purposes were not favorably viewed by most of the participants at all levels of religiosity. Below are illustrative examples of the participants’ perspectives and statements on the burden of debt:

“I wish that the banks do not encourage people to be in debt, however. I do not believe that it is good for society to be drowned in debt.”

“Making it easy for take debt is a very big problem in society and it hurts the community. This could lead to moral hazards in society. Taking debts easily creates big burdens.”

Based on using the NVivo software’s qualitative text analysis of the “Debt is a Burden” Emotion Code category as illustrated in Figure 35 and Figure 36, I captured the following Pattern Code themes:
• All participants, regardless of the level of income, education, or religiosity, consider debt a burden to be avoided at all cost;

• Participants with orthopraxis level of religiosity consider living debt-free an important Islamic virtue; and

• All participants, regardless of the level of income, education, or religiosity, expressed feeling uneasy towards debt because it is an obligation that constrains their freedom.
Debt is a burden | Free of debt

Debt is an obligation | Debt is heavy

Figure 35. Debt is a burden hierarchy chart.
Figure 36. Debt is a burden word cloud.
5.2.11 Islamic Banking User Experience

This code category assesses Muslims’ beliefs regarding Islamic banking. I have identified twelve Emotion Codes that capture the participants’ user experience, which they described during the course of the interviews. I ranked the participants’ Emotion Codes based on the NVivo software’s identification of the highest reference frequency. Table 38 lists the participants’ user experience.

<table>
<thead>
<tr>
<th>Table 38: Islamic Banking User Experience</th>
</tr>
</thead>
<tbody>
<tr>
<td>Category</td>
</tr>
<tr>
<td>Islamic Banking User Experience</td>
</tr>
<tr>
<td></td>
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<td></td>
</tr>
</tbody>
</table>

The participants who use Islamic banking expressed very high levels of satisfaction in term of their ability to have a choice that is compliant with their Islamic faith values. Religion was the primary driver for their decision to use Islamic banking. The “Compliance with faith values” Emotion Code had the second highest frequency reference in the NVivo software next to the “Avoid debt” Value Code. A number of the participants who use
Islamic banking did not see a difference between it and conventional banking. However, they reported that they use it because of the fatwa and out of their desire to be compliant with their faith values. The measure of religiosity of these participants was either experience, central, or basic religious. All participants, regardless of the level of their income, education, or religiosity, believed that both banking systems are able to compete equally.

Overall, the user experience with Islamic banking was not highly positive in terms of convenience, level of requirements, complexity of procedures, transparency of financial products, or ease of use. Some of the participants expressed difficulty in terms of ability to understand the details of the Islamic financial products being offered, their use, and procedures used to obtain them. They also expressed frustration with the level of customer services and reported lack of friendliness in their customer experience. However, despite all these challenges, all of the participants who used Islamic banking were very pleased to have the freedom of choice and ability to use an Islamic alternative.

All of the participants who use Islamic banking reported that their primary reason for using it is their religious values. Some of them even shared with me that they are not convinced that it is truly Islamic, however, they adopted it because the fatwa instructs all Muslims to use Islamic banking. The importance of demonstrating religious compliance is critical for Muslims who use Islamic banking. This affirms the assertions of my theory. Based on using the NVivo software’s qualitative text analysis of the “Islamic banking user
experience” Emotion Code category as illustrated in Figure 37 and Figure 38, I captured the following three Pattern Code themes:

- All of the participants who use Islamic banking, regardless of the level of income, education, or religiosity, reported that the primary reason for using Islamic banking is that it complies with their faith values;

- Participants who use Islamic banking, regardless of the level of income, education, or religiosity, reported that Islamic banking competes equally with conventional banking; and

- Some of the participants who use Islamic banking reported that their customer experience was not friendly and expressed desire for having more transparency, reduced complexity, and improved understanding of the products being offered.
<table>
<thead>
<tr>
<th>Compliant with my faith values</th>
<th>Complex procedures</th>
<th>Competes equally</th>
</tr>
</thead>
<tbody>
<tr>
<td>Similar to conventional</td>
<td>I am not familiar</td>
<td>Need more transpar...</td>
</tr>
<tr>
<td>Difficult to use</td>
<td>Easy to use</td>
<td>Too many requirements</td>
</tr>
</tbody>
</table>

Customer service not frie... Convenient ...

Figure 37. Islamic banking user experience hierarchy chart.
Figure 38. Islamic banking user experience word cloud.
5.2.12 Conventional Banking User Experience

This code category assesses Muslims’ beliefs regarding conventional banking. I have identified six Emotion Codes that capture the participants’ user experience, which they described during the course of the interviews. I ranked the participants’ Emotion Codes based on the NVivo software’s identification of the highest reference frequency. Table 39 lists the participants’ user experience.

<table>
<thead>
<tr>
<th>Table 39: Conventional Banking User Experience</th>
</tr>
</thead>
<tbody>
<tr>
<td>Category</td>
</tr>
<tr>
<td>User experience</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td></td>
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<tr>
<td></td>
</tr>
</tbody>
</table>

Participants who use conventional banking reported that conventional banking competes equally with Islamic banking. They were quick to report that they do not see any differences between conventional and Islamic banking. None of the participants who use conventional banking have an orthopraxis or knowledge level of religiosity, however. The participants clarified their view of similarity based on using deposit services at conventional banking, which does not provide interest. They also pointed out that they do not take interest loans from conventional banks. Therefore, they do not see any differences between their using Islamic or conventional banks.

Participants who use conventional banks reported that they prefer to use conventional banking due to convenience and the proximity of their banks to their homes.
They also reported that they have been using their conventional banks for a very long time and have developed trust and confidence in their conventional banks. Some of the participants reported that they find using conventional banking easier than using Islamic banking. Two participants shared that they like the promotions and prizes offered by conventional banks and pointed out that Islamic banks do not provide the same type of promotions.

None of the interview participants who use conventional banking borrowed from their banks due to religious reasons. This affirms my theory’s assertions. Based on using the NVivo software’s qualitative text analysis of the “Conventional banking user experience” Emotion Code category as illustrated in Figure 39 and Figure 40, I captured the following three Pattern Code themes:

- All participants who use conventional banking, regardless of the level of income, education, or religiosity, reported that the primary reason for using conventional banking is convenience and that they have used it for a very long time;

- All participants who use conventional banking, regardless of the level of income, education, or religiosity, reported that conventional and Islamic banks are similar and able to compete equally; and

- None of the participants who use conventional banking were at orthopraxis or knowledge level of religiosity.
<table>
<thead>
<tr>
<th>Competes equally</th>
<th>Similar to Islamic</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Convenient location</th>
<th>Used for a long time</th>
<th>Promo...</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Easy to use</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
</tr>
</tbody>
</table>

Figure 39. Conventional banking user experience hierarchy chart.
Figure 40. Conventional banking user experience word cloud.
**Pattern Code Theme Analysis**

I used the Pattern Codes to assess whether they support the theory that regulatory accommodation of Islamic banking could lead to an increase in Muslims’ financial inclusion. Table 40 outlines the results of the analysis.

### Table 40: Pattern Themes Financial Inclusion Analysis

<table>
<thead>
<tr>
<th>Code Category</th>
<th>Pattern Code Themes</th>
<th>Increase Inclusion?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Use Islamic Banking</td>
<td>Use of Islamic banking is driven primarily by religious reasons in order to comply with Islamic faith values and to avoid the use of interest.</td>
<td>Yes</td>
</tr>
<tr>
<td></td>
<td>Use of Islamic banking due to religious reasons spans the full spectrum of the Islamic religiosity scale among the participants from basic to orthopraxis. It is not restricted or limited solely to Muslims with high levels of Islamic religiosity.</td>
<td>Yes</td>
</tr>
<tr>
<td></td>
<td>Participants use Islamic banking primarily for deposits. Very few participants in the interview sample use Islamic banking for borrowing purposes. Three reasons were provided for this exclusion, including strong aversion to debt, complexity of borrowing procedures, and difficult economic conditions.</td>
<td>Yes</td>
</tr>
<tr>
<td>Use Conventional Banking</td>
<td>Participants who are at knowledge or orthopraxis religiosity levels consider using conventional banking altogether forbidden.</td>
<td>Yes</td>
</tr>
<tr>
<td></td>
<td>Participants who use conventional banking, at all levels of religiosity, do not use it for borrowing practice.</td>
<td>Yes</td>
</tr>
<tr>
<td></td>
<td>Participants at all levels of religiosity unanimously agree that using fixed-interest products is a form of <em>Ribā</em>, which is a forbidden practice in Islam.</td>
<td>Yes</td>
</tr>
<tr>
<td></td>
<td>A number of the participants use conventional banking for deposit because their employer asked them to use a firm-designated conventional bank for salary deposits.</td>
<td>Yes</td>
</tr>
<tr>
<td>Preferred Financial Practices</td>
<td>Participants prefer to use cash as the first choice to buy a home, cars, appliances, furniture, send children to college, or cover the cost of weddings and funerals.</td>
<td>No</td>
</tr>
<tr>
<td></td>
<td>Participants prefer to use Islamic and social cooperation borrowing methods as a second preferred choice for buying cars, appliances, furniture, and send children to college.</td>
<td>No</td>
</tr>
<tr>
<td></td>
<td>Participants prefer to use Islamic banking borrowing methods to buy a car or a home.</td>
<td>Yes</td>
</tr>
<tr>
<td></td>
<td>Participants do not use conventional banking borrowing methods to buy a home, cars, appliances, furniture, send children to school, or cover the cost of weddings and funerals.</td>
<td>Yes</td>
</tr>
<tr>
<td>Code Category</td>
<td>Pattern Code</td>
<td>Pattern Code Theme</td>
</tr>
<tr>
<td>----------------------------</td>
<td>--------------</td>
<td>------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>Preferred Saving Practices</td>
<td>Code</td>
<td>Participants prefer to use gold as a method of savings for short term needs. It is the most preferred method of savings.</td>
</tr>
<tr>
<td></td>
<td>Category</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Code</td>
<td>Participants prefer to use land as a method for long-term savings. They use this method for significant future expenses such as building a home, sending children to college, or covering the cost of weddings and funerals.</td>
</tr>
<tr>
<td></td>
<td>Category</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Code</td>
<td>Participants do not typically use Islamic or conventional banking services for savings.</td>
</tr>
<tr>
<td>Exclusion from Banking</td>
<td>Code</td>
<td>Participants who are unbanked and very poor resort to interest loans despite expressing a high measure of orthopraxis Islamic religiosity. They have no choice.</td>
</tr>
<tr>
<td></td>
<td>Category</td>
<td>Income and education have a significant impact on use of interest loans offered through private lending firms. Low-income and uneducated Muslims tend to fall prey to exploitative financial practices.</td>
</tr>
<tr>
<td></td>
<td>Code</td>
<td>Islamic cooperation methods are used to provide financial relief to poor Muslims. However, these methods are not sufficient for alleviating poverty or expanding financial inclusion.</td>
</tr>
<tr>
<td></td>
<td>Category</td>
<td><em>Quard al-Hassan</em> loans are not widely offered or widely available to poor and unbanked Muslims.</td>
</tr>
<tr>
<td>Islamic Cooperation Practices</td>
<td>Code</td>
<td>Poor and unbanked participants rely heavily on Islamic cooperation financial practices to cover their basic financial needs.</td>
</tr>
<tr>
<td></td>
<td>Category</td>
<td><em>Kafalah</em> and <em>Quard al-Hassan</em> are the most widely used financial practices among the poor and the unbanked to support college education expenses and support basic financial needs.</td>
</tr>
<tr>
<td>Social Cooperation Practices</td>
<td>Code</td>
<td>Participants prefer the use of <em>Jamm'yah</em> in order to avoid the use of interest loans to pay for small personal needs such as appliances and furniture.</td>
</tr>
<tr>
<td></td>
<td>Category</td>
<td>Participants prefer the use of the tribal <em>Diwan</em> social collaboration method to cover the community costs of weddings and funerals.</td>
</tr>
<tr>
<td></td>
<td>Code</td>
<td>Participants prefer the use of the <em>Naqabah</em> social collaboration method to cover the cost of major items such as buying land, a home, or a car.</td>
</tr>
</tbody>
</table>
### Pattern Themes Financial Inclusion Analysis (Table 40 ... continued)

<table>
<thead>
<tr>
<th>Category</th>
<th>Pattern Code Theme</th>
<th>Increase Inclusion?</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Social Cooperation Practices</strong></td>
<td>The <em>Kafeel</em> social collaboration method, while still in place and broadly used for borrowing, is diminishing and is becoming more difficult to ascertain.</td>
<td>No</td>
</tr>
<tr>
<td></td>
<td>Traditional social collaboration methods such <em>Sandooq</em> are disappearing and are not readily available.</td>
<td>Yes</td>
</tr>
<tr>
<td><strong>Avoid Debt Practices</strong></td>
<td>All participants, regardless of the level of income, education, or religiosity, prefer to avoid debt.</td>
<td>No</td>
</tr>
<tr>
<td></td>
<td>All participants, regardless of the level of income, education, or religiosity, prefer to use cash.</td>
<td>No</td>
</tr>
<tr>
<td></td>
<td>All participants, regardless of the level of income, education, or religiosity, prefer to not use credit cards.</td>
<td>No</td>
</tr>
<tr>
<td></td>
<td>Participants who have debit cards use them to get cash from the bank. They rarely use them as an electronic method to pay at a point of service (POS).</td>
<td>No</td>
</tr>
<tr>
<td></td>
<td>All participants, regardless of the level of income, education, or religiosity, expressed the need to live modestly and to not take out loans unless it was necessary.</td>
<td>No</td>
</tr>
<tr>
<td><strong>Riba is Forbidden</strong></td>
<td>All participants, regardless of the level of income, education, or religiosity, prefer to avoid interest.</td>
<td>Yes</td>
</tr>
<tr>
<td></td>
<td>All participants, regardless of the level of income, education, or religiosity believe that <em>Riba</em> is a prohibited sin.</td>
<td>Yes</td>
</tr>
<tr>
<td></td>
<td>All participants, regardless of the level of income, education, or religiosity, consider fixed interest in borrowing a form of Riba.</td>
<td>Yes</td>
</tr>
<tr>
<td></td>
<td>Participants differed in their assessment of whether profits offered by Islamic banks on savings are similar to interest return offered on savings by conventional banks.</td>
<td>Yes</td>
</tr>
<tr>
<td><strong>Debt is a Burden</strong></td>
<td>All participants, regardless of the level of income, education, or religiosity, consider debt a burden to be avoided at all cost.</td>
<td>No</td>
</tr>
<tr>
<td></td>
<td>Participants with orthopraxis level of religiosity consider living debt-free an important Islamic virtue.</td>
<td>No</td>
</tr>
<tr>
<td></td>
<td>All participants, regardless of the level of income, education, or religiosity, expressed feeling uneasy towards debt because it is an obligation that constrains their freedom.</td>
<td>No</td>
</tr>
<tr>
<td>Category</td>
<td>Pattern Code Theme</td>
<td>Increase Inclusion?</td>
</tr>
<tr>
<td>----------------------------------</td>
<td>---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------</td>
<td>--------------------</td>
</tr>
<tr>
<td>Islamic Banking User Experience</td>
<td>All participants who use Islamic banking, regardless of the level of income, education, or religiosity, reported that the primary reason for using Islamic banking is that it complies with their faith values.</td>
<td>Yes</td>
</tr>
<tr>
<td></td>
<td>Participants who use Islamic banking, regardless of the level of income, education, or religiosity, reported that Islamic banking competes equally with conventional banking.</td>
<td>Yes</td>
</tr>
<tr>
<td></td>
<td>Some of the participants who use Islamic banking reported that their customer experience was not friendly and expressed desire for having more transparency, reduced complexity, and improved understanding of the products being offered.</td>
<td>No</td>
</tr>
<tr>
<td>Conventional Banking User Experience</td>
<td>All participants who use conventional banking, regardless of the level of income, education, or religiosity, reported that the primary reason for using conventional banking is convenience and that they have used it for a very long time.</td>
<td>No</td>
</tr>
<tr>
<td></td>
<td>All participants who use conventional banking, regardless of the level of income, education, or religiosity, reported that conventional and Islamic banks are similar and able to compete equally.</td>
<td>Yes</td>
</tr>
<tr>
<td></td>
<td>None of the participants who use conventional banking were at orthopraxis or knowledge level of religiosity.</td>
<td>Yes</td>
</tr>
</tbody>
</table>

Of the forty-four identified Pattern Code themes, sixteen would not support the theory assertions. In particular, preferred financial practices, preference to avoid debt, and viewing debt as a burden all contribute to a culture and practice that negatively views borrowing practices. Regardless of the availability of Islamic or conventional banking, Muslims would continue to vest in these practices to avoid debt because debt is viewed as a burden and an obligation due to a cultural and religious worldview.

In addition, Muslims who use conventional banking solely for deposit purposes would not have an incentive to shift their use unless the level of their religiosity increases.
In general, the results indicate that Muslims who are at knowledge and orthopraxis levels of religiosity view using conventional banks altogether prohibited. Muslims who have lesser levels of religiosity do not necessarily share that point of view for the use of deposits.

Lastly, differentiation factors in banking user experience matter to Muslims who view Islamic and conventional as similar forms of banking. They do not have a strong religious motivation to shift their banking from conventional to Islamic. However, Muslims with knowledge and orthopraxis religious measures would not consider using conventional banking under any circumstances due to religious drivers.

Having said that, of the forty-four Code Pattern themes, 64% (n = 28) themes do support the theory claim based on the level of association between the theme and its impact on increasing financial inclusion. This evidence indicates that the pattern themes have a high level of impact such that it would be reasonable to validate the claim of the theory. The qualitative analysis and evidence identified in this study do support the assertions claimed by the theory. It is highly likely that regulatory accommodation of Islamic banking could lead to an increase on Muslims’ financial inclusion based on the results of the Code Pattern themes analysis.

5.3 Convergent Parallel Analysis

I identified forty-four Pattern Code themes based on the Pattern Code analysis of the qualitative content of the interviews. In order to compare the financial inclusion survey and the patterns code results, I identified common pattern codes that have common pattern intersections with the financial inclusion survey. I used the Pattern Codes to assess whether
they support the theory that regulatory accommodation of Islamic banking could lead to an increase in Muslims’ financial inclusion. Based on this analysis, I used Patten Codes (themes/concepts) to identify possible generalization based on open coding particulars as illustrated in Figure 41.

![Figure 41. A streamlined code-to-theory model for qualitative inquiry (Saldana, 2016).](image)

Pattern Code themes identify the outcome of coding, categorization, or analytic reflection.31 Of the forty-four pattern codes, I identified twenty-four that intersected with the financial inclusion survey. A high convergence score indicates that there is a strong qualitative correlation between the results of the Pattern Code themes and the financial inclusion survey results. A medium convergence score indicates that there is a somewhat strong qualitative correlation between the results of the Pattern Code themes and the

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financial inclusion survey results. A low convergence score indicates that there is a weak qualitative correlation between the results of the Pattern Code themes and the financial inclusion survey results.

The assessment of the correlation is based on text analytics comparative analysis of the matching lexicon as well as assessment of the similarity and differences in concepts between the Code Pattern themes and the financial inclusion survey results. Lastly, the assessment was based on my own qualitative judgement of the measure of convergence based on evident cause-and-effect pattern analysis between the Code Pattern themes and the financial inclusion survey results. Tables 42, 43, 44, 45, 46, 47, and 48 outline the results of the convergent parallel analysis of the financial inclusion survey results and the Pattern Code themes.
Table 41: Use Islamic Banking Convergent Parallel Analysis

<table>
<thead>
<tr>
<th>Category</th>
<th>Code Pattern Themes</th>
<th>Financial Inclusion Survey</th>
<th>Convergence</th>
</tr>
</thead>
<tbody>
<tr>
<td>Use Islamic Banking</td>
<td>Use of Islamic banking is driven primarily by religious reasons in order to comply with Islamic faith values and to avoid the use of interest. Use of Islamic banking due to religious reasons spans the full spectrum of Islamic religiosity scale among the participants from basic to orthopraxis. It is not restricted or limited solely to Muslims with a high level of Islamic religiosity. Participants use Islamic banking primarily for deposits. Very few participants in the interview sample use Islamic banking for borrowing purposes. Three reasons were provided for this exclusion, including strong aversion to debt, complexity of borrowing procedures, and difficult economic conditions.</td>
<td>Survey participants reported that they primarily use Islamic banking due to religious reasons. More than 60% of the survey participants believe that Islamic banking offers a religious alternative to conventional banking.</td>
<td>High</td>
</tr>
</tbody>
</table>

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### Table 42: Use Conventional Banking Convergent Parallel Analysis

<table>
<thead>
<tr>
<th>Category</th>
<th>Pattern Code</th>
<th>Financial Inclusion Survey</th>
<th>Convergence</th>
</tr>
</thead>
<tbody>
<tr>
<td>Use Conventional Banking</td>
<td>Participants who are at knowledge or orthopraxis religiosity levels consider using conventional banking altogether forbidden.</td>
<td>Survey participants reported that they use conventional banking because it’s convenient, easy to use, and they have used it for a long time. A number of the survey participants stated they are asked to use conventional banks by their employer for salary deposits.</td>
<td>High</td>
</tr>
<tr>
<td></td>
<td>Participants who use conventional banking, at all levels of religiosity, do not use it for borrowing practice.</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Participants, at all levels of religiosity, unanimously agree that using fixed-interest products is a form of Riba, which is a forbidden practice in Islam.</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>A number of the participants use conventional banking for deposits because their employer asked them to use a firm-designated conventional bank for salary deposits.</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### Table 43: Preferred Saving Practices Convergent Parallel Analysis

<table>
<thead>
<tr>
<th>Category</th>
<th>Pattern Code</th>
<th>Financial Inclusion Survey</th>
<th>Convergence</th>
</tr>
</thead>
<tbody>
<tr>
<td>Preferred Saving Practices</td>
<td>Participants reported that they do not typically use Islamic or conventional banking services for savings.</td>
<td>Survey participants rated Mudaraba the most important Islamic banking product to them because they use it for saving in Islamic banking. Interview participants preferred using gold and land as a method of saving over using Islamic banking saving accounts. This could be attributed to social, cultural, and economic factors in the use case country.</td>
<td>Low</td>
</tr>
</tbody>
</table>
### Table 44: Exclusion from Banking Convergent Parallel Analysis

<table>
<thead>
<tr>
<th>Category</th>
<th>Pattern Code</th>
<th>Financial Inclusion Survey</th>
<th>Convergence</th>
</tr>
</thead>
<tbody>
<tr>
<td>Exclusion from Banking</td>
<td>Participants who are unbanked and very poor resort to interest loans despite expressing a high measure of orthopraxis Islamic religiosity. They have no choice.</td>
<td>Survey participants shared that they are unbanked primarily due to poverty. The majority of the survey participants reported that Islamic banking is important for improving economic development and alleviation of poverty.</td>
<td>High</td>
</tr>
<tr>
<td></td>
<td>Income and education have a significant impact on use of interest loans offered through private lending firms. Low-income and uneducated Muslims tend to fall prey to exploitative financial practices.</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Islamic cooperation methods are used to provide financial relief to poor Muslims. However, these methods are not sufficient for alleviating poverty or expanding financial inclusion.</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Quard al-Hassan loans are not widely offered or widely available to poor and unbanked Muslims.</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### Table 45: Riba is Forbidden Convergent Parallel Analysis

<table>
<thead>
<tr>
<th>Category</th>
<th>Pattern Code</th>
<th>Financial Inclusion Survey</th>
<th>Convergence</th>
</tr>
</thead>
<tbody>
<tr>
<td>Riba is Forbidden</td>
<td>All participants, regardless of the level of income, education, or religiosity, prefer to avoid interest.</td>
<td>More than 75% of the participants reported that interest is forbidden and Riba is prohibited.</td>
<td>High</td>
</tr>
<tr>
<td></td>
<td>All participants, regardless of the level of income, education, or religiosity believe that Riba is a prohibited sin.</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>All participants, regardless of the level of income, education or religiosity, consider fixed interest in borrowing a form of Riba.</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Participants differed in their assessment of whether profits offered by Islamic banks on savings are similar to interest return offered on savings by conventional banks.</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Table 46: Islamic Banking User Experience Convergent Parallel Analysis

<table>
<thead>
<tr>
<th>Category</th>
<th>Pattern Code</th>
<th>Financial Inclusion Survey</th>
<th>Convergence</th>
</tr>
</thead>
<tbody>
<tr>
<td>Islamic Banking User</td>
<td>All participants who use Islamic banking, regardless of the level of</td>
<td>Survey participants reported that the primary reason for their using Islamic banking is religious reasons. More than half of the survey participants reported that they are either very satisfied or satisfied with Islamic banking. One third of the survey participants reported that Islamic banking offers competitive products.</td>
<td>High</td>
</tr>
<tr>
<td>Experience</td>
<td>income, education, or religiosity, reported that the primary reason for using</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Islamic banking is that it complies with their faith values.</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Participants who use Islamic banking, regardless of the level of income,</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>education, or religiosity, reported that Islamic banking competes equally</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>with conventional banking.</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Some of the participants who use Islamic banking reported that their customer</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>experience was not friendly and expressed desire for having more transparency,</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>reduced complexity, and improved understanding of the products being offered.</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Table 47: Conventional Banking User Experience Convergent Parallel Analysis

<table>
<thead>
<tr>
<th>Category</th>
<th>Pattern Code</th>
<th>Financial Inclusion Survey</th>
<th>Convergence</th>
</tr>
</thead>
<tbody>
<tr>
<td>Conventional Banking</td>
<td>All participants who use conventional banking, regardless of the level of</td>
<td>Survey participants reported they use conventional banking because they believe it is similar to Islamic banking. They prefer to use it because it's convenient, easy to use, and they have been using it for a very long time. They believe that both forms of banking can compete equally.</td>
<td>High</td>
</tr>
<tr>
<td>User Experience</td>
<td>income, education, or religiosity, reported that conventional and Islamic</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>banks are similar and able to compete equally.</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>None of the participants who use conventional banking were at orthopraxis or</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>knowledge level of religiosity.</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
The results of the convergent parallel analysis, on a scale of low to high, show that there is a high level of convergence in six of the seven intersecting Pattern Code categories. The only exception that did not converge is the “Preferred Saving Practices” code category. The survey participants rated Mudaraba (Islamic saving accounts) the most important Islamic product. However, the interview participants rated this product very low and only one of the thirteen users who use Islamic banking used Mudbaraba. The interview participants preferred other saving practices such as using gold or land as a deposit of value and a saving method.

This divergence in the convergent parallel analysis could be attributed to contextual social practices in the use case country. It also could be attributed to the fact there are very low levels of poverty in the use case country, high levels of unemployment, high cost of living, and high level of economic uncertainty. A number of the participants who use Islamic banking expressed that they are not able to save due to the high cost of living and to difficult economic conditions.

The Z-score results provided a positive confirmation between accommodating Islamic banking and increasing financial inclusion. This result was convergent in Jordan, which experienced a significant increase in three of its financial inclusion indicators, as illustrated in Table 48.
Table 48: Jordan Financial Inclusion Indicators Convergent Parallel Analysis

<table>
<thead>
<tr>
<th>Financial Inclusion Indicators</th>
<th>2011</th>
<th>2014</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Borrowed from a financial institution (% age 15+)</td>
<td>4.47</td>
<td>13.57</td>
<td>Increase</td>
</tr>
<tr>
<td>Bank branches per 100,000 adults</td>
<td>18.29</td>
<td>18.54</td>
<td>Increase</td>
</tr>
<tr>
<td>ATMs per 100,000 adults</td>
<td>27.88</td>
<td>29.93</td>
<td>Increase</td>
</tr>
</tbody>
</table>

Overall, the results of the convergent parallel analysis indicate that there is a high level of convergence between the qualitative and quantitative data used in this study. This convergence provides strong support to the theory presented in this study. The results of the mixed research methods in this study confirm that regulatory accommodation of Islamic banking leads to an increase in Muslims’ financial inclusion.

I assessed the level of commonality between the Pattern Codes and the financial inclusion survey results based on a scale of low, medium, and high. I used the twelve qualitative categories and the results of the Pattern Codes / financial inclusion qualitative analysis to assess convergence of the qualitative analysis with the outcome of the financial inclusion survey. The result shows that eight of the categories are highly convergent, one category is not convergent, and three categories did not intersect due to lack of mutual content as illustrated in Table 14.

The three categories that have low convergence were preferred financial practices, Islamic cooperation practices, and social cooperation practices. These categories were not covered in the financial inclusion survey. Therefore, I could not compare the outcome of the qualitative coding with the online survey. The preferred savings practice convergence outcome did not converge, and this is possibly due to country-specific factors. This result leads me to recommend later in the thesis to undertake qualitative research in a number of
countries to assess preferred saving practices in order to isolate possible country-specific parameters. The rest of the categories demonstrated a high level of convergence between the survey and the qualitative analysis. This outcome reinforces the theory and provides convergence support for the assertions outlined in the theory.

Table 49: Qualitative Categories Convergence Analysis

<table>
<thead>
<tr>
<th>Category</th>
<th>Qualitative Analysis Support</th>
<th>Financial Inclusion Survey</th>
<th>Convergence</th>
</tr>
</thead>
<tbody>
<tr>
<td>Use Islamic Banking</td>
<td>High</td>
<td>High</td>
<td>High</td>
</tr>
<tr>
<td>Use Conventional Banking</td>
<td>High</td>
<td>High</td>
<td>High</td>
</tr>
<tr>
<td>Preferred Financial Practices</td>
<td>High</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>Preferred Saving Practice</td>
<td>Low</td>
<td>High</td>
<td>Low</td>
</tr>
<tr>
<td>Exclusion from Banking</td>
<td>High</td>
<td>High</td>
<td>High</td>
</tr>
<tr>
<td>Islamic Cooperation Practices</td>
<td>High</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>Social Cooperation Practices</td>
<td>High</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>Avoid Debt Practices</td>
<td>Low</td>
<td>Low</td>
<td>High</td>
</tr>
<tr>
<td><em>Riba</em> is Forbidden</td>
<td>High</td>
<td>High</td>
<td>High</td>
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<tr>
<td>Debt is a Burden</td>
<td>Low</td>
<td>Low</td>
<td>High</td>
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<tr>
<td>Islamic User Experience</td>
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</tr>
<tr>
<td>Conventional Banking User Experience</td>
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CONCLUSION

One of the key goals of the financial system is to increase the financial inclusion of individuals and firms. Financial inclusion is defined by the World Bank as the proportion of individuals and firms that use financial services. The definition includes a wide array of financial services from payments and savings accounts to credit, insurance, pensions, and securities markets.¹ The availability of financial services enables individuals and firms to take advantage of these services to support activities such as starting new businesses, investing in education, or saving for retirement. However, while financial services might be available and accessible, they may not be necessarily used. Muslims who have access to conventional financial services may choose not to use them due to their faith beliefs, for example. The Organization for Islamic Cooperation (OIC) countries reportedly have about fifty-one million adults who do not have a banking account.²

This study explored the impact of regulatory accommodation on increasing Muslims’ financial inclusion. Religion plays an important role in Muslims’ financial inclusion. I used the El-Menouar framework for measuring Muslims’ religiosity.³ Muslim interview participants whose religiosity was higher than an experience measure of religiosity shared that if they did not have access to Islamic banking, they would have opted


² Ibid., 36.

³ El-Menouar and Bertelsmann, 54.
to exclude themselves from the financial system in order to comply with Shari‘ah requirements. Of the 178 Muslim financial inclusion survey participants, 77.53% (n = 138) ranked religious reasons as the primary driver for choosing Islamic banking services. Of the 260 Islamic financial inclusion survey participants, 79.62% (n = 207) ranked use of interest as the primary reason for Muslims’ shifting from using conventional to Islamic banking. Clearly, religion has a very strong impact on Muslims’ financial inclusion. Therefore, regulatory accommodation of Islamic banking and finance has a positive effect on increasing Muslims’ financial inclusion.

However, religion is not the only factor that has an impact on Muslims’ financial inclusion. During the course of this study, I learned that having access to banking and using a bank account does not necessarily mean that the participants are willing to take advantage of their bank’s borrowing or saving services. Interview participants who used conventional banking cited religion as the reason for choosing not to save at or borrow from their conventional bank. Some of the interview participants who used Islamic banking were more inclined to use their Islamic bank’s savings and borrowing services over conventional services because they were satisfied that Islamic banking met their religious values. The majority of the interview participants preferred to not to use conventional or Islamic banking services altogether for borrowing or saving. They preferred using social or Islamic cooperation financial practices.

Avoiding debt and avoiding the use of interest had the highest frequency reference across all the participants’ interviews. It transcended all the levels of religiosity as a
common and shared humanistic value among all the Muslim participants. Debt was viewed as a burden and an obligation to be avoided. It was also considered something that should be used only for basic needs and if necessary. Living modestly and avoiding accumulation of debt was considered as an important Islamic and social value among the participants. Saving for future needs such as education or marriage were considered important financial practices. Most of the interview participants preferred using gold for short-term savings and land for long-term savings over using Islamic and conventional banking services. These social practices contribute to Muslims’ exclusion from the financial system.

Having said that, the quantitative and qualitative study results positively indicate that regulatory accommodation of Islamic banking does lead to an increase in Muslim’ financial inclusion. The Z-score results provided a positive correlation outcome, albeit based on a limited points of inclusion data in 2011 and 2014. The correlation result between the Z-scores of Islamic banking and financial inclusion showed an increase from 2011 to 2014 in all of the financial inclusion factors except for female inclusion and borrowing from a financial institution. Additionally, the results of validating the Pattern Code themes analysis against the theory assertions indicate that the Pattern Codes themes highly support the theory’s assertions because, of the 44 Pattern Code themes, 64% (n = 28) codes have a high impact on increasing Muslims’ financial inclusion.

Moreover, based on the results of the convergent parallel mixed methods analysis, I identified an evident support for increasing Muslims’ financial inclusion. Of the 44 Pattern Codes, 54% (n = 24) positively intersected with the results of the financial inclusion
survey. The results of these positive intersections showed that six of the seven intersecting Code Pattern categories demonstrate high levels of impact on Muslims’ financial inclusion. The only exception that did not converge was the “Preferred Saving Practices” code category. The financial inclusion survey participants rated using Islamic banking highly as a preferred method for savings; however, the interview participants did not. I attributed this divergent outcome to culture-specific norms and practices in the use case. Using gold and land as preferred methods for short-term and long-term saving remains the preferred financial practice for saving in Jordan. Most of the interview participants preferred using gold for short-term savings and land for long-term savings over using Islamic and conventional banking services.

In summary, this study demonstrates that the following human values have a significant impact on Muslims’ daily financial practices:

- Religion has a significant impact on Muslims’ financial inclusion;
- Avoiding debt and avoiding the use of interest transcended all the levels of religiosity as a common and shared humanistic value among all the Muslim participants;
- Living modestly and avoiding accumulation of debt was considered as an important Islamic and social value among the participants; and
- Saving for future needs such as education or marriage were considered important financial practices.

The results of this study positively support the assertion that regulatory accommodation of Islamic banking and finance could lead to an increase in Muslims’ financial inclusion. However, more research should be undertaken to further explore country-specific factors and their impact on Muslims’ financial inclusion. Religious
practices, while very dominant, are not the only factor that impacts Muslims’ financial exclusion. Social and Islamic cooperation practices as well as levels of education and income also have an impact on Muslims’ financial inclusion. It would be beneficial to conduct further qualitative research analysis for the other Islamic countries in the scope of my study using the same research approach outlined in this study. Such research could provide useful insights in terms of comparing the collective impact of religion, Islamic and social cooperation practices, income, and education on Muslims’ financial inclusion across these countries.
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## APPENDIX A: LIST OF BANKS

### Table 50: List of Islamic Banks Used in the Study

<table>
<thead>
<tr>
<th>Bank Name</th>
<th>Country Name</th>
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<tbody>
<tr>
<td>Albaraka Banking Group B.S.C.</td>
<td>BAHRAIN</td>
</tr>
<tr>
<td>Ithmaar Holding B.S.C.</td>
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<tr>
<td>Al-Salam Bank-Bahrain B.S.C.</td>
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<tr>
<td>Kuwait Finance House</td>
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<td>Bahrain Islamic Bank B.S.C.</td>
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<td>Albaraka Islamic Bank BSC</td>
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<td>Khaleej Commercial Bank</td>
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<tr>
<td>Shahjalal Islami Bank Ltd</td>
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<td>Safwa Islamic Bank</td>
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<td>Al Rajhi Banking &amp; Investment Corporation (Malaysia) Berhad</td>
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APPENDIX B: FINANCIAL INCLUSION SURVEY QUESTIONS

*Muslims’ Financial Inclusion Survey:*

What is your gender?

- Female
- Male

What is your age?

- 18 to 24
- 25 to 34
- 35 to 44
- 45 to 54
- 55 to 64
- 65 to 74
- 75 or older

In what country do you live?

In what city do you live?

Are you now married, widowed, divorced, separated, or have you never been married?

- Married
- Widowed
- Divorced
- Separated
- Never married

Do you have any children?

- Yes, all 18 or over
- Yes, one or more under 18
- No

How many children do you have?

- None
- 1
- 2
Are you a Muslim?

○ Yes ○ No

What is the highest level of education you have completed?

What is your profession?

○ Teacher ○ Doctor ○ Lawyer ○ Journalist ○ Engineer ○ Banker
○ Accountant ○ Pharmacist
○ Business Administration ○ Government (Civil Servant)
○ Executive Management ○ Human Resource
○ Retail
○ Investor
○ Other (Specify)

How many years of experience do you have in your profession?

○ 1–5 years
○ 5–10 years
○ 10–15 years
○ > 15 years
○ Other (Please Specify)

Do you have a bank account?

If NO, why do you not have a bank account?

○ Religious reasons ○ Economic reasons
○ Family and friends do not recommend
Lack of availability of banks in my area

Other (please specify)

Have you heard about Islamic banking?

Yes ☐ No ☐

Other (Please Specify)

What is your level of understanding of Islamic banking?

Weak ☐ Average ☐ Good ☐ Excellent

Do you have an Islamic bank account?

Yes ☐ No ☐

Other (please specify)

If you have an Islamic bank account, why did you choose to open it?

Religious reasons ☐

Low risk investment ☐

Competitive products ☐

Better banking service ☐

Family and friends recommended it ☐

Profitability ☐

Accessible locations ☐

Service charges ☐

Wide Service Range ☐

Bank reputation ☐

Other (Please specify) ☐

Select the Islamic banks products that are most important to you.
- Checking Account
- Mudaraba (Savings Account)
- Ijara (Lease financing)
- Murabaha (Debt financing)
- Musharaka (Equity financing)
- Sukuk (Bonds)
- Takaful (Insurance)

How satisfied are you with Islamic banking?
- Very Satisfied
- Satisfied
- Somewhat Satisfied
- Not Satisfied
- Other

Do you believe there is a difference between Islamic and conventional banks?
- Yes
- No
- Other (Please specify)

If you use conventional banking, why did you choose conventional banking?
- I already have a conventional account
- I do not have confidence in Islamic Banking
- Most people have accounts in conventional banks
- I want to get a fixed-interest product
- I am not motivated to use Islamic banks
- Fear of your funds being frozen due to Islamophobia
- Other (please specify)

If you use both Islamic and conventional banking, why do you use both banking systems?
- Limited Islamic banking facilities
- Limited range of services offered by Islamic banks
- Wide range of services offered by Conventional banks
- Investment diversification
- Fear of your funds being frozen due to Islamophobia
- Other (please specify)

How many people do you know who use Islamic banking only?
- None
- One to Five
- Five to Ten
- More than Ten

How many people do you know who use conventional banking only?
- None
- One to Five
- Five to Ten
- More than Ten

How many people do you know who use both?
- None
- One to Five
- Five to Ten
- More than Ten

How many people do you know who do not use banking at all?
- None
- One to Five
- Five to Ten
- More than Ten

Should your country accommodate Islamic banking?
- Yes
- No
- I do not know
- Other (Please specify)

Do Islamic banks offer more competitive products?
Does profit-and-loss sharing in Islamic banking offer a better business model?

- Yes  
- No  
- I do not know  
- Other

Are Islamic banks important to economic development and growth in your country?

- Yes  
- No  
- I do not know  
- Other (Please Specify)

Should Muslims shift their banking from conventional to Islamic banks?

- Yes  
- No  
- I do not know  
- Other (Please specify)

Why should Muslims shift their banking from conventional to Islamic banks?

- Use of interest (Riba) is forbidden in Islam  
- Islamic banking is more competitive than conventional banking  
- Islamic banking is more stable than conventional banking  
- Islamic banking financial products are easy to understand  
- Islamic banking is more widely adopted  
- Islamic banking is supported by the government  
- Other (please specify)

Are Islamic banks important for the financial inclusion of the Muslim community?

- Yes  
- No
Do Islamic banks offer a religious banking alternative to conventional banking?

- Yes
- No
- I do not know
- Other (please specify)

Do you believe Islamic banks are able to compete equally against conventional banks?

- Yes
- No
- I do not know
- Other (please specify)

If you have any experiences to share or comments to make about any of the questions above, please feel free to contact me at

Nida Davis, nsd25@georgetown.edu
APPENDIX C: SAMPLE INTERVIEWS

Participant – 312462:

1. Do you believe that Islamic and conventional banks are able to compete equally? Why or why not?

Yes. There is no difference between Islamic and conventional in terms of banking except that Islamic banks are compliant with the Shari’ah and this gives me peace of mind to use them.

2. Based on your experience, what are the differences between Islamic and conventional banking?

Islamic banking is compliant with Shari’ah. They are a bank like any other bank in the country but they provide religious financial products which I am comfortable with. Islamic banking has branches and it is easy to work with. Islamic banks follow Jordan central bank rules so I feel comfortable and confident to use them and it is easy to use it. It made life much easier for me. I now have access to financial products that are consistent with my faith values. The banking sector has evolved a lot in Jordan. We now can use ATM anywhere to get cash and to transfer money. My Islamic bank is also very modern. I also have access to mobile system on my phone to check my account. Also, I have debit card to get cash anywhere and I can use my debit card to pay for shopping. These are new services that has emerged and are making life much easier and reduces reliance on using cash. I have been using Islamic banking for 15 years. I have never used conventional banking due to religious reasons. I am very satisfied that I have the option to use the Islamic bank.
However, I would like to have more transparency and understanding about the fees associated with their products. Sometimes it is difficult to understand the product and its fees. In particular, the Islamic credit card system and the fees associated with using the credit card was not easy to understand and it was not readily transparent. The Islamic bank sends me information about their new products and the Islamic instruments they provide and their structure through email and they sometimes call me. They send me information about student loans, housing loans, appliance loans, and other services. However, it is difficult to understand the fees and the product structure.

3. Would you consider shifting from conventional banking to Islamic? If so, why?

I use Islamic banking. In Shari’ah it is permissible to use conventional if there are no other Islamic banking alternatives and if there is no possibility for me to have housing and transportation except by taking a loan with interest. If it is a hardship, and there are no other options, then I can use conventional banks. Many devout Muslims do not choose to do this even with the fatwa permission. Taking Riba loans is highly troubling for me, of course, as a Muslim. I would seek a fatwa consultation to provide me with permission to use conventional banking with interest to meet my basic needs if I had to do so. However, we now have an Islamic banking option in Jordan. I am very grateful that now I have the Islamic banking option. Thanks to the availability of Islamic banks, Muslims have options compliant with their faith values. I would not take any interest-based loans except for the most pressing needs and only if I have a fatwa that explicitly says I can do so and gives me permission. I avoid interest loans because it is Riba. The fatwas today allow the use of
conventional banking deposit accounts because they do not have interest. However, I do not use conventional banks even for deposit accounts. The fatwa do not permit taking loans for housing or cars at interest because these are not basic necessities. Muslims can rent or use public transportation. However, now we can buy cars and homes because we now have an Islamic option to borrow without interest. If Islamic banking does not exist to buy a car or a home, this is not a necessity. One can rent and use public transportation. One can save to buy a car or a house in cash. It is not permissible for a Muslims to take loans at interest from a conventional banking to buy these things because it is forbidden and considered Haram. However, using conventional banking deposit accounts to get your salary and to manage your basic financial needs would be permitted only if there is no other Islamic option. And today, in Jordan, we have the Islamic banking option available for deposit and saving accounts use. We also have Islamic options to take loans to buy a car, a house, and use the credit card to buy household appliances. This is really important for us Muslims who do not want to use Riba (interest). There are only two or three Islamic banks to choose from in Jordan. We need more Islamic banks. The Islamic banks are the same and they all offer good services in Jordan. The difficulties associated with switching from one Islamic bank to another Islamic banks is very high so I prefer to not change my Islamic bank. If I have to change my Islamic bank, then I have to submit much paper work to deposit my salary to another Islamic bank. It is a very complex process to change the deposit of my salary to another Islamic bank so it is not worth the trouble. This is why many people whose
company use conventional bank do not switch to using Islamic bank for deposits. The process is very difficult to switch from one bank to another.

4. Do you have a banking deposit services (current account)?
Yes.

5. Do use Islamic banking or conventional banking?
I use Islamic banking. I choose to use it due to religious reasons. I prefer to use banking services that are compliant with my religious values. I do pay service fees on monthly basis to use the deposit account.

6. Do you use debit or credit cards?
Yes. I use the debit card to get cash from the ATM. In the past I did use the Islamic credit card which does not have any interest. However, we have to pay fixed fee annually to use the Islamic credit card. I used it to buy home appliances from a vendor who is contracting with the Islamic bank as well. The Islamic Bank does not make any profit on the appliances I purchased using their credit card. This method of buying appliances with an Islamic credit card is used to market the bank reputation. The IB bank uses these card to promote the Islamic bank in the market. They only take fees for using the credit card itself. The bank does not charge any profit on the card purchases of appliances. These are cards used as promotional tools to increase the reputation of the bank in the market.

7. Do you use IBs, CBs, a mix of the two, or no banking services? Why or why not?
No. I strictly use Islamic banking only.
8. Do you use banking saving services?

Yes. I have a Murabaha savings account with my IB bank. The profit is very little on this saving account compared to other types of savings accounts in conventional banking. I usually deposit half of my salary in a Murabaha savings account to have profit. It is not that much profit but I am comfortable with this because the profit is not Riba. I usually keep savings in my bank account for emergencies.

9. Do you use gold or land as a method of savings?

Yes. My husband and I bought land long time ago to keep it for the children education and any major expenses such as weddings. In the past, I used to use cooperative Jamm’yah (social cooperation) provided through my employer and we used to buy through these cooperatives land. The land is usually purchased through the cooperative Jamm’yah (social cooperation) and it is then distributed to the group of investors who want to purchase parcels of the cooperative land by paying the cooperative a specific number of installments. This is not a loan but rather an agreement with the cooperative to pay for the land in installments to own it upon the final payment. I bought land through this cooperative system. In our society, in my culture, we usually save by using gold as a quick source of cash to cover in case of emergencies. I usually buy gold and set it aside for using it in case I have to do so in an emergency case. I always keep gold as a means of covering emergencies or need for cash if there is an emergency. I prefer to use gold for these purposes and as my insurance. I keep my gold at home. If something bad happens to the bank, I still have gold to cover emergencies.
10. Do you use banking borrowing services?
Yes. We use borrowing from the Islamic bank because it is compliant with our religious values. We borrow for buying a home, car, and appliances. It is convenient to use the Islamic bank for these loans. We do not have major cash savings to buy them and having the ability and the option to take Islamic loans is very helpful for us.

11. Did you take a loan to buy your home?
Yes. We took a loan to buy our home from the Islamic bank. We had to pay 50% of the price of the apartment in cash and the rest is a loan. It was a buy-sell arrangement. The Islamic bank used an Islamic system such that they bought the apartment we selected then sold it to us at profit.

12. Did you take a loan to buy your car?
No. I pay cash for my cars. I do not take loans and have not tried to take a loan for my car. Debt is a burden and I try to avoid loans as best as I can.

13. Do you take loans to buy household appliances and/or furniture?
Yes. I do not use the Jamm’yah (social cooperation) systems to cover the cost of tuition, appliances, and household expenses. I have an Islamic credit card with the Islamic bank which I use to buy these house appliances and the bank deducts monthly installments from my salary which I deposit with them. I find the Jamm’yah (social cooperation) system a burden and an obligation. I prefer to use the Islamic bank credit card since there is no profit.
on purchase of appliances or big items. I find the *Jamm'yah* system (social cooperation) too complex to manage. I used to participate in this system but I no longer do so.

14. Do you take loans to cover your children’s education expenses?

No. Their father is expected to cover the tuition expenses. He did not take student loans from the Islamic bank. He covers the cost of their education from his savings and selling land we bought long time ago.

15. Do you take personal loans for covering major life events such as weddings and funerals?

No. We use our savings for planning marriage expenses and we bought land as well for the future to sell so and use to cover the cost of the children’s marriages. For funerals, we have a *Diwan* (social cooperation) to cover these costs.
Participant – 442252:

1. Do you believe that Islamic and conventional banks are able to compete equally? Why or why not?

Yes. They can compete equally. There is no difference between Islamic or conventional banks. They are the same. I prefer to use conventional banks because I have confidence in them and they are more convenient to me and they have good reputation.

2. Based on your experience, what are the differences between Islamic and conventional banking?

I have tried to explore using an Islamic bank to take a car loan but there were too many complications. I wanted to see if it would be more beneficial for me to use an Islamic bank and get a loan. It was too complex so I decided to stay with my conventional bank. The Islamic bank had too many requirements. They wanted two Kafeels (social cooperation) who are also members of the same Islamic banks. They also wanted me to open an account with them as well. The process and procedures for buying the car was very difficult as well and the loan cost was not that much different from the conventional loan so I stayed with my conventional bank. The Islamic bank is easy to use only if your family members who are using it so you can get loans from them.

3. Would you consider shifting from conventional banking to Islamic? If so, why?

No. The conventional banks have commercial promotions to win prizes and I would like to win. My conventional bank is very close to my house so it is convenient and easy to use.
Also, I feel trust in this bank because it has a long history and the Islamic bank procedures and requirements are too complex.

4. Do you have a banking deposit services (current account)?

Yes. I use it for deposit.

5. Do use Islamic banking or conventional banking?

I use conventional banking for deposit.

6. Do you use debit or credit cards?

I do not have a credit card. I use a debit card to get cash from the ATM. I get cash from the ATM to cover all my expenses. I prefer to use cash for managing all my financial needs including paying my rent, food, and any other things I need. I use the bank only to deposit my money.

7. Do you use IBs, CBs, a mix of the two, or no banking services? Why or why not?

I use a conventional bank only. As I said, I tried to use the Islamic bank but their requirements are too complex and they are too far for me to go. I do not want to spend money on transportation to go a bank that is very far from my home. I can walk to my conventional bank. If I use the Islamic bank then I have to take taxi or ask someone to drive me and that is a burden on me. All banks are the same. They just use the name Islamic to make it different but it is the same.
8. Do you use banking saving services?

I do not use conventional banking for savings. I have very low income so I usually do not save money because of all the obligations I have to cover and nothing is left for me to save. I am always in debt because sometimes I have to borrow to cover my basic needs.

9. Do you use gold or land as a method of savings?

No. We have limited income so we cannot afford to save in gold or land. But I believe it is a great way to save.

10. Do you use banking borrowing services?

No. I use private small loans companies (not the bank) to get personal loans to cover small expenses only if I have to such as my son’s wedding, for example, or sudden needs. I do not use conventional bank because I am not qualified to borrow from them for personal loans. I use private lending companies to get personal loans as the need arises which is unfortunately becoming almost always. These companies are not banks by the way. They are companies that give loans to poor people like me who cannot get loans from the conventional or Islamic bank. The average interest rate is 25 to 30 percent depending on the size of the loan for these small personal loans. There are seven companies in Jordan that are in this business and I have taken loans from almost all of them. I take one loan after the other to cover sudden and urgent needs. The interest is very high but we have no other choice because of our poor economic condition. These days no one wants to be a Kafeel (social cooperation) because everyone has obligations and risks. So it is becoming very difficult to get loans for poor people like me. I am not able to get loans from the Islamic or
the conventional bank because I do not have a Kafeel (social cooperation) and I do not have regular income. I use private small loans companies to get loans but they charge very high interest. It is very expensive for poor people like me to borrow but we have no choice because this is the only option we have today in case of an emergency or to cover a big expense. I try to avoid borrowing by using the Jamm’yah system.

11. Did you take a loan to buy your home?
No. We cannot afford to buy a home. I rent.

12. Did you take a loan to buy your car?
Yes. We took a loan from the conventional bank to buy a car. There was not much difference in the cost to take a loan from the conventional or Islamic. It was more convenient to take it from my bank. My son who just joined the military was the Kafeel (social cooperation) for this car loan. We really tried to take a loan from the Islamic bank to avoid interest but with all the procedures and complex requirements we had to use the conventional bank because it is much easier.

13. Do you take loans to buy household appliances and/or furniture?
No. I use Jamm’yah (social cooperation) primarily to cover these expenses to avoid paying interest. Unfortunately, the Jamm’yah (social cooperation) system is becoming more difficult to use because there is an increasing number of people who are able to get loans from banks for their cars, appliances, and homes so they do not have much interest left to join a Jamm’yah (social cooperation). Therefore, I have to rely more and more on getting personal loans from private lending companies who charge me very high interest rates. I
have been running and managing *Jammy’ah* (social cooperation) system for over sixteen years. I have 30 members in my *Jammy’ah*. I manage the collection and distribution. I do not get paid for any of my effort in managing the *Jammy’ah* (social cooperation). We try to avoid taking loans with interest as best as we can by using the *Jamm’yah* (social cooperation) system but it is getting very difficult to set up a group and avoid taking such high interest loans. When a sudden need or emergency happens, we have no choice but to use these companies to get these small personal loans at a very high interest rate to cover such sudden expenses.

14. Do you take loans to cover your children’s education expenses?

No. I cannot afford to send my children to college. My children could not go to college because we are too poor. They joined the military.

15. Do you take personal loans for covering major life events such as weddings and funerals?

For wedding, I took a mix of *Jammy’ah* (social cooperation) and private personal loan at high cost from the small lending company to cover the costs. For funerals we do not have a *Diwan* (social cooperation) like other families do. Not all poor families have a *Diwan* (social cooperation) so we will have to do the same using small loans at high cost or *Jamm’yah* to cover the cost of the funerals.
**Participant-312141:**

1. Do you believe that IBs and CBs are able to compete equally? Why or why not?

I am not sure. I am not familiar with Islamic or conventional banking. I am very poor and do not use banking services.

2. Based on your experience, what are the differences between Islamic and conventional banking?

I am not sure. I am not familiar with Islamic or conventional banking. I do not use banking services.

3. Would you consider shifting from conventional banking to Islamic? If so, why?

I do not use banking. However, Muslims should use Islamic banking to avoid *Riba*. I have the *Kafalah* (Islamic cooperation) to support my children and myself. It is very small income. I also have a very simple job as a housekeeper so I do not use banking. The *Kafalah* (Islamic cooperation) is not sufficient to cover my needs so I got a job as a housekeeper to cover the expenses.

4. Do you have a banking deposit services (current account)?

No. I do not.

5. Do use Islamic banking or conventional banking?

No. I do not use banking.

6. Do you use debit or credit cards?

I do not use banking services.
7. Do you use IBs, CBs, a mix of the two, or no banking services? Why or why not?

I do not use banking services.

8. Do you use banking saving services?

No. I do not save because I cannot afford to save.

9. Do you use gold or land as a method of savings?

It is good to have gold but I am so poor so I cannot save this way.

10. Do you use banking borrowing services?

I take loans but not from banks. I use private small loans lending companies who give interest loans. I had to take these loans even though I am a very devout Muslim. It pains me very deeply that I have taken these loans. I have drowned in debts to cover the cost of my son’s health. I do not have health insurance and my son was in a car accident and I had to send him to the hospital. The only reason I took these interest debts is because I had to support my son’s health costs. These loans are Riba and are interest loans which are forbidden in Islam. I know it is forbidden in Islam and I know it is Haram. I am very devout woman and I know that this is a major sin in Islam. But I had no other choice. I took one loan after the other to cover my son’s medical expense. I took a loan the other day from a small lending company and I cried all day long because I know it’s a sin and I am not supposed to take these loans. But what can I do, I have to cover my son’s health expenses. Yes, I have Kafalah (Islamic cooperation) but it is not enough. It does not cover the medical expenses. My son had a car accident and he has many health expenses that I still have to cover. I took loans from the private lending companies and this is a major disaster. I fear
God so much and I have anguish and pain that I am taking these loans. When my son had the accident, I did not have insurance so I had to pay a huge sum to cover his health costs. I took debts from most all of the private lending companies that would agree to lend me. I use three private lending companies that charge me very high interest rates. So, I am now stuck with Riba loans I took and I am having a very hard time paying them off. I have a Kafeel (social cooperation) who helps me get these loans. I started working as a housekeeper because I want to try to pay off my debts. I pray to God that I can pay off these usurious debts. What can I do, I have to send my son to the hospital and I have to cover his health expenses. We are so poor and do not have insurance. There are many women who are just like me. They have no choice. These women are very devout and are highly religious women. I know a very devout woman who took a Riba loan the other day and she has become very sick because she knows that this is forbidden and it is a major sin. She too had no choice but to take this loan. I too became so sick from the heartache and anguish because I am taking usury loans. These are Riba loans I know that but I have no choice and I must help my son recover. There are many poor women who are just like me who are also in the same predicament. They are very devout and they pray all day and read the Quran all the time but have no other choice because life is hard for poor people like us. Everyone in our community is having to deal with hardship. I have drowned in usury debts. I have never taken loans before and I avoid debts and live very modest life to avoid debt. I live a very modest life. I do not take debt or borrow for anything and this sudden disaster with my son forced me to take these interest loans. It was a disaster. I hope God will forgive
me. The Islamic charity center is trying to help me get rid of these interest loans and be free from *Ribā*. They also give me *Kafalah* and are working with me to help me get rid of the *Ribā* debt. They also give me counseling and support for my grief and sadness over these unfortunate events in my life. I am not sure how we would have survived without their help or without the help of the *Kafalah* (Islamic cooperation) which is helping me cover my basic financial needs.

11. Did you take a loan to buy your home?  

No. We rent.

12. Did you take a loan to buy your car?  

No. We use public transportation.

13. Do you take loans to buy household appliances and/or furniture?  

No. I live very modestly. All I have in my home is from donations from the community or from the Islamic charity center and the *Kafaleh, Sadaqah*, and Islamic charity in the community. Everything I own is from charity from the community. We are very poor people. They Islamic charity center gave me clothes, furniture, stipend, and they are also helping me to overcome the interest debts so that I can be free from *Ribā*. The Islamic charity center helps me keep my dignity and have a peace of mind to provide for my children and reduce my poverty.

14. Do you take loans to cover your children’s education expenses?  

No. I cannot afford to send my children to school. I am too poor to send my children to school.
15. Do you take personal loans for covering major life events such as weddings and funerals?

No. I do not take loans for personal things such as marriage and other things. I live very modestly. I just took loans for my son’s health only because I had no other choice. We do not have a Diwan in my family so for the wedding costs I will use the Kafalah (Islamic cooperation) and in the future if my children would like to go to college maybe we can ask the Islamic charity center to give us Quard al-Hassan (Islamic cooperation) to help my children go to college. They give Quard al-Hassan (Islamic cooperation) to poor students to help them with their education.