

Analysing Constraints and challenges faced by the Islamic and Conventional Banking  
Systems: a study of Saudi Arabia

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## **Abstract**

From a financial perspective, the challenges related to conventional and Islamic bank within an economy has deemed to be very critical and it is also based towards evaluating and understanding the management and application related to shariah based instrument in an effective manner. With regards to Islamic banking, some of the biggest issues include the lack of availability of customers that would further help in development of financial assets where banks can further expand their business. Whether they are running on conventional or Islamic principles, the costs related to operational requirements for banks are extremely high. As a result, banks do need willingness of their customers for investment. When compared with conventional banks, the growth and development of Islamic banks has been relatively high and it has also attracted critical acclaim. Even though Islamic banking has developed over the last few years but muslims and Non-Muslims have yet not been able to develop a thorough understanding regarding the notion of Islamic Banking. As a result, it has created difficulties for implementing Islamic Banking.

This study focuses on the various challenges and constraints faced by Islamic and conventional banks. For the purpose of data analysis, qualitative analysis have been used and interviews have been conducted from experienced banking professionals in KSA.

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# **1 Chapter 1: Introduction**

## **1.1 Overview of the study**

According to the research of Mansoor and Ishaq (2008), growth and developments within Islamic based financial institutions have been observed in the Islamic countries. Islamic institutions are essentially the ones that are operating according to the Sharia based rules and regulations. There are differences within Islamic, that is Sharia based system, and conventional banking system. In the case of Sharia banking system, the fundamental pillar is the interest paid on loans, which implies that any interest based instrument is forbidden in Islamic banking or is riba free (interest-free) (Chakrabarty, 2015). Interest is considered as one of the major differences between Islamic and conventional banking system (Chakrabarty, 2015).

These differences also affect the investment system and investment instruments. Investment instruments would be regarded as the instruments that have financial value and can be traded through which the owner gets access to finance (Ariffin et al, 2015). It is required by the investments made in Islamic system to be certified and accepted by a panel of the board containing Islamic scholars who make sure whether the investments made and the instruments comply with all the Islamic rules and regulations (Waemustafa, 2013). It can be stated that the Islamic banking system is rather focused upon the profit, loss and risk sharing than the interests (Shahari et al, 2015). There are various investment instruments, such as financial securities including stocks and debt instruments. In Sharia, the common types of compliant investment funds would include Musharakah, Mudarabah, Murabaha, Ijarah. There are certain factors within Sharia that act as a constraint and limitation for investments in such funds similar to the restrictions mentioned earlier, such as riba, maisir, day trading and haram (Ariffin et al, 2015).

On the other hand, conventional investment instruments work according to different principles. It has been observed that these differences have influenced investment behaviours of customers as well as there are certain constraints within Sharia that make it a less attractive system for customers (Al-Muharrami, 2014). Considering that, the focus of this study is to evaluate the differences between conventional and Islamic investment instruments based on the customers' attractiveness. This will provide a contribution to the existing literature by highlighting the differences between Islamic and conventional financial instruments and will help shed some light on how these differences affect customer attractiveness and investments specifically within the Kingdom of *Saudi Arabia* (KSA). The study will also examine constraints faced by Islamic and conventional banks in Saudi Arabia and provide recommendations on how to improve customer attractiveness of these instruments.

KSA is an Islamic state and system followed in KSA is based on Sharia Law. Hence, factors that affect investments and people's behaviour in KSA would hold importance in this regard.

## **1.2 Study Background**

Islamic banking system is based on Sharia Law, which has been based on core religion findings and teachings (Hesse et al, 2008). The interest is strictly prohibited in Sharia and most of the investments are based upon the concept of sharing risk and profitability (Waemustafa, 2013). There is an advisory board of Sharia that contains certain experts to work with the lawyers and the banks who are working for making the investments in accordance with the commercial requirements and Sharia. The difference within Sharia based investment instruments and conventional investments instruments involves predominantly interest payments, as Islam forbids taking interest and suggest participation of both lender and borrower in business environment



(Waemustafa, 2013). In comparison to this, it can be said that time value is considered as the base for charging the interest on capital. On the contrary, Beck *et al* (2013) explained that the basis for earning in the Shariah is considered as the profit on trading of goods and/or charging on providing services. In addition, conventional banking uses the money that eventually leads to inflation. However, in Shariah, a link has been created in the real sector that is present in the economic system by making the use of trade related activities (Abdul-Majid *et al*, 2010). There is an association found between money and real assets, which can contribute to the economic development.

The financial instruments that are adopted in Sharia are majorly in the form of complaint investments that are equity funds, real estate funds, money market funds. The types of investment instruments that are used in such cases all contain some different characteristics and features but are employed in the Islamic contracts that ensure that the rights of the parties involved and the terms and conditions are developed in accordance with the Islamic principles (Fajar Pasaribu *et al*, 2015). On the other hand, the conventional investments involve interest based lending, such as bonds, as it relies on interest heavily. The bond system is also adopted in Islamic banking that is named as Sukuk. Sukuk is structured to develop profit for the investor while considering the Islamic and Sharia laws (Singh & Das, 2013). Sukuk would include shares in the ownership of tangible assets and are associated with investment activities (Singh & Das, 2013). On the other hand, the conventional system could contain Eurobonds where the borrower has to pay interests and they are based on the currencies (Singh & Das, 2013).

It has been observed that these differences affect the investment behaviours of customers in many ways, while According to Hesse and Sole (2008), Islamic based instruments such as Sukuk do not attract non Muslim investors. Considering that, this study will focus upon evaluating the

constraints and the features of Sharia based investment instruments and how they influence the choice of investors within KSA specifically.

The challenge of Islamic bank in an economy where predominantly conventional banks reign supreme is very critical study and is based on understanding the application and management of shariah based instrument effectively (Mansoor and Ishaq, 2008). The biggest issues Islamic banking faces are the availability of significant customer base that can help to develop asset where banks can do business with (Dusuki and Abozaid, 2007). The costs of operational requirements of banks are very high and charges and fees associated is not significant, banks need willingness of its customers to invest. In this regard, the growth and rise of Islamic banks have been quite phenomenal as they have not only accumulated significant amount of following but have also shown great leaps in profitability (Sarker, 1999).

The biggest and foremost challenge faced by Islamic banks is the concept itself, in principal to a conventional banker, the application of the Islamic concepts does not come easy. The consumers find it hard to differentiate between the products of two banks while both the instruments have essentially similar offering and approach. According to Wilson (1999), banks need to make sure that there Shariah based objective is clearly explained to the customers and marketing is more focussed on informing customers and educating them about Islamic concepts. According to Karbhari et al (2004), the biggest concern for Islamic banks comes from its own extremist Islamic community where many religious leaders explain a clear divide among Shariah compliance and its application to finance. Many Muslim scholars have discussed and expressed reservation about its concepts and this also affects the approach of banks for initiating customer attraction (Wilson, 1999).

Another challenge that has been faced by Islamic banks is the application of authentic and uniform code of conduct and operations (Wilson, 1999). The way Shariah has been implemented and applied by banks is not uniform and also, the concept of asset base does not conform to one clear fundamental rule. According to Sarker (1999), this can be related to relatively new industry and lack of standardisation and application of principles. As a result, different banks have different instruments and this confuses customers. This is also back by the issue of lack of scholar and genuine researchers available on the subject. This However is certainly reducing over the passage of time and the situation is somewhat better then early 2000 (Dusuki and Abozaid, 2007).

### **1.3 Aims**

This study is aimed at examining challenges and constraints faced by Islamic banks and illustrate the factors that differentiate Islamic banking from conventional banking in the Saudi context.

### **1.4 Research Objectives**

- To compare and contrast Islamic and conventional investment instruments in the Saudi context.
- To examine constraints and challenges faced by Islamic banks in KSA.
- To identify and examine factors that influence customer attractiveness towards Sharia instruments in KSA.
- To provide recommendations for improving customer attractiveness towards Sharia based instruments

## **1.5 Research Questions**

- What are the differences between conventional and Sharia based investment instruments?
- What are the constraints and challenges faced by the Islamic banks in KSA?
- What factors can affect customer attractiveness towards Sharia instruments in KSA? .
- What recommendations could be provided in order to improve customer attractiveness towards Sharia based instruments?

## **1.6 Contribution Study**

The research attempts to highlight challenges faced by Islamic banks in addition to the basic religious grounds that have been studied in somewhat more detail. The research enhances and highlights the issue of customer attractiveness for Islamic Banks. The country chosen for the study is one of the key countries for Islamic banking development. Therefore, this study contributes to the literature by providing detailed information collected through the interviews with bank managers on the challenges faced by Islamic banks in Saudi Arabia. The study also aims to identify main factors that can improve customer attractiveness towards Shariah instruments in the context of Saudi Arabia.

## **1.7 Organisation of Dissertation**

The research is comprised of 5 chapters. In the first chapter detailed introduction is given regarding research aims and objectives and background for the study and developing rationale for the topic. In the second chapter pertinent literature has been studied. Third chapter provides detailed about applicable methodology for the study supported in the light of academic literature. Qualitative approach is selected where managers are interviewed. In the analysis chapter

summary of interviews has been done and analysis has been carried out by discussion of topic in different themes. In final and 5th chapter conclusion and recommendations have been given.

## **2 Chapter 2: Literature Review**

### **2.1 Introduction**

In recent years, a number of Islamic banks have been operated to accommodate the growing demands of globalisation. The Islamic finance has moved from a niche position to become a middle-of-the-road component of the global banking system. In the beginning, this literature review aims to discuss the basic principles of Islamic banking and differentiate the Islamic banking with conventional banking system. Moreover, this review analyses the operational and institutional challenges of Islamic banking. Also, this review explains applications and benefits of Islamic banking as cited by different authors. Finally the study examines the Islamic banking system in Kingdom of Saudi Arabia.

### **2.2 Principles of Islamic Banking System**

The morality of Islam obtains its foundation in the belief that all human beings are the servants of a single God who is the creator of the universe, and they are all brothers, and any resources assigned to them are intended to be used in a fair manner as the basic principle of Islamic finance. This value-system marks itself in the financial system through three major principles: list them here, i.e. profit and loss sharing principle; asset-backed principle and principle of respect. (Hasan-uz-Zaman, 1997).

### **2.2.1 PLS (Profit and Loss Sharing) Principle or Prohibition of Interest (the Riba')**

The PLS (Profit and Loss Sharing principle) replaced the interest by sharing profits and losses and reduced the resentment between the donors of the capital. PLS based on the following key points:

- The lender and the borrower must agree on the risk, the profits and losses.
- Every fund holder must be exposed to the risk of loss to legitimate his gain.
- The two parties must engage in a transaction that is fair and have to put into effect activities that go towards public interest.

As explained by El-Gamal (2003) Islamic banks are not authorised to proffer fixed interest or predetermined rates on deposits and they are not allowed to modify interest on loans. From this piece of information, the insight of a predetermined fixed rate, totally disconnected from the definite routine of the original asset, is not prohibited.

Saeed (1995) found that the moral dimension of this prohibition is essential and is rooted in or the principles of Islamic law: the Quran, the Sunnah, thijma (consensus) and the qiyas (the principle of analogy). However, he further emphasises the fact that Islam is not opposed to profits as counterpart for the capitalist effort and to the loyalty of funds in productive functions.

### **2.2.2 Asset-Backed Principle or the ban of garhar, of maysir, of uncertainty and of chance**

In Islamic banking the uncertainty is prohibited which gives rise to assumption. The calculated risk of an investment is permitted, but not the speculation, therefore it is restricted in Islamic banking to incorporate all finance to tangible assets (Chapra, 2000). For example, an investment

can be financed by an Islamic finance which will result in a cash flow of charter income generating a compensation for the creditor, but the securitisation of the transaction is prohibited.

The financing in forbidden activities regarded as *haram* (illegal) by Islamic law such as casinos, production of alcohol, swine industries etc. (give reference here) It is the responsibility of fund owners to know the use of their money. This principle is also found in moral finance in favour of viable development of the economy.

### **2.2.3 Principles of Respect**

According to El-Hawary, Grais and Iqbal (2007) the principles of respect modify the conventional system of banking intermediation. Moreover Jobs (2007) found that Islamic banking intermediation specifies mobilisation of funds, which in turn transforms the inactive structure of a balance sheet compared to conventional banks. There are two types of accounts: UPSIA and RPSIA. In UPSIA, the applicants authorise the Islamic bank to invest the funds without setting any restriction with regards to the place, and to what purpose funds will be invested. In RPSIA, the applicants compel certain restrictions including how and to what purpose the funds can be used.

Islamic banking therefore provides an example of a system with its ethical principles that allow some adaptation to uniqueness.

### **2.3 Basic Concepts and Theories**

The Islamic banking industry has been one of the fastest growing for the last four decades (Dusuki and Abdullah, 2007). Loqman (1999) explains that “Islamic banking is being distinguished by its interest-free nature, the absence of uncertain transactions and investments



with companies dealing in immoral, unethical and unlawful operations as per the Islamic law” (Loqman, 1999, pp. 52-59).

The study of forty years of Islamic banking shows nevertheless that there is a gap between the principles dictated by Shari and banking practices (Siddiqi, 2006). The history of Islamic banking indicated innovation to increase the prohibition of interest in many ways. Islamic financial issues originate from the sacred texts and their interpretation: such as the Holy Quran, Sunnah (the interpretation of the acts, the life and the words of the Holy Prophet) and Fiqh (Jurisprudence).

Despite all of this a study from Presley and Sessions (1994) shows that Muslim economy is a model in its own right and masquerades the question of connection between religion, human and economy as defined by Sauer (2002). Consequently Memon (2007) explained that this moral economy is rooted in ethics and common intellect that form the basis of many religions.

Another principle that is of crucial importance is maintaining sincerity and truthfulness within the transactions. A transaction must be profitable for both parties without dependency, annoyance and weakness of one of the parties. Orphans and women are particularly protected with the help of fair transactions. Satkunasingam and Shanmugum (2004) admit that in Islamic banking accumulation of wealth is not prohibited by law but rather the fact that it is done so at the expense of poor.

#### **2.4 Islamic Banking Jurisprudence**

Islamic jurisprudence (Fiqh) is a process by means of which jurists derive sets of guidance, rules and regulations from the rules mentioned in the Quran and Sunnah (Bassiouni and Badr, 2001).

While the principles of Quran and Sunnah are permanent, it is the nature of Islamic jurisprudence to facilitate for human beings the applications of those principles to their dealings and activities. In Islamic banking jurisprudence is regulated by a set of guidelines and rules primarily introduced by the Quran and Sunnah. It involves the rules of transacting finance or other economic activity in a Shar'iah compliant manner (Jobs, 2007). It is applied to issues like property, and taxes.

The Shar'iah compliance states that Islamic finance is based on the principles established by the Shar'iah as well as other jurisprudence known as fatwa issued by skilled Muslim scholars (Visser, 2013). It has become a common practice for Islamic banks to appoint their own board of Shar'iah scholars. Therefore, the first measure that Islamic bank must undertake is to appoint a Shar'iah board. This initial step is essential for the future operations of the financial bodies as well as it assists the banks to comply with Shar'iah principles. These principles have the inherent promoting features which aim to protect investors and consumers, ensuring financial stability and customer protection.

## **2.5 Need for Islamic Finance versus Conventional Banking**

In the Muslim perspective, there is a dire need for Islamic financing. Muslim belief system follows Shari'ah, in which interest is strictly prohibited. Iqbal and Molyneux (2005) stated that even the Islamic civilisation even in the past glory days, every activity of mobilizing resources to financial activities were totally free from interest. However, the economic activities of the world later were shifted to the Western financial systems and practices which strongly rely on interest. Gradually thereafter, Muslim people started avoiding the conventional banking system which is interest-based (Hitti, 2007). Rivlin (2009) stated that these banks received severe resistance by

the Islamic scholars. Therefore, a call for alternative functional mechanism has arisen. This mechanism now operates successfully all over the world, called Islamic Banking.

There are various financial approaches highlighted by literature in which Islamic banking is quite different from the conventional banking. Badreldin (2009) studied Annual reports of Islamic Banks of Egypt from 2005-07, and argued that by the use of financial ratios, the performance of Islamic vs. conventional banking can be gauged and it significantly varies in accordance with the financial indicators measurement. In order to compare conventional and Islamic banks, there performance is being influenced by comparing and contrasting the banks on average. Furthermore, Hasan and Dridi (2010) found that six Islamic banks, on average, perform much better in Bahrain comparative to their fifteen conventional interest-based counterparts with regard to profitability, liquidity and credit performance. Additionally, Parashar (2010), researched six Islamic and six conventional banks during 2006-09 explained that Islamic banks are exposed to lesser liquidity risks because of high liquidity feature as imposed by the principles of Shari'ah restriction. Moreover, Islamic banks have short term loans investments, with more lending conservativeness. Similarly, Abdulle and Kassim (2012) examined ten Islamic banks in Malaysia over the period of 2004-07 and discovered that Malaysian Islamic banks are more liquid and less risky due to high equity-to-asset ratio and their scope of greater investment in less-risky government securities. However, the difference in managerial performance as calculated by Return-on-Asset (ROA) and Return-on-Equity (ROE) was not statically significant. Apart from this, Hanif *et al* (2012) studied 50 Islamic and 59 conventional banks from 18 countries from 2004-09, and found that Islamic banks perform much better than conventional banks, in terms of asset quality and capital adequacy. Beck, Demirguc-Kunt and Merrouche (2013) studied 21 Islamic and conventional banks in 22 countries over the period of

1995-2009. The study revealed that even though Islamic banks have excess liquidity, they are not cost effective due to their cost to income ratio. However, Erol *et al* (2014) chose four Islamic and seven conventional banks from UAE from 2005-14, and described that Islamic banks have higher growth rate with respect to equity, deposits, investment and total assets, efficient resources usage. Moreover, they also find that Islamic banks have higher profitability as depicted by their Return on Investment (ROI) and Return on Equity (ROE). Besides, Islamic banks generate less income per unit due to lack of Shari'ah compliance in the investment opportunities of Central Bank. Furthermore, they bear higher labour cost due to being new and hiring of experienced bankers from conventional banking.

In Islamic countries, the focus on the Islamic banking is increasing day by day that has even resulted in less preference of the conventional banking. Al-Ajmi, Abo Hussain and Al-Saleh (2009) explained that conventional banking systems operate on debt- like principles such as murabaha and ijara, while Islamic banking emphasise on equity principles like mudharaba and musharaka. These principles apply the equity function in the investment accounts particularly. It has also been indicated that the Malaysian Islamic banks are less risky and more liquated due to high equity-to-asset ratio. There is a huge difference between return on equity and return on the assets of conventional and Islamic banking. The instruments used in Islamic banking are also very different. For example: Musharakah, that is considered as one of the Islamic financial instrument, is a kind of partnership in which the parties involved would enjoy the profits on the ratios that have been agreed upon in the agreement while the losses are shared o the basis of capital that has been invested (Hassan et al, 2013). While in Mudarabah is a kind of partnership in which the investor called “Rab-ul-Mal” would be providing capital to the investment manager called “Mudarib” as a part of businesses activity or investment activity, in which the profits are

enjoyed on the basis of agreed ratios while investor would bear all the losses (BinMahfouz & Ahmed, 2014). Ijarah is also a financial instrument that is a lease agreement in which instead of lending money and then earning interest, the investor would earn profit through changing the rents on assets that are leased. There is Murabaha which involves purchasing and sale of assets (BinMahfouz & Ahmed, 2014). Here the investor would instead purchase an asset from a third party and then sell it at a higher but fixed rate to the user; through this payment of higher prices the user gains credits without paying interest. In commercial equity instruments in Islamic commercial law, both musharakah and mudarabah would require partnership (Hassan et al, 2013).

## **2.6 Application and Benefits of Islamic Finance**

### **2.6.1 Key benefits of Islamic banking over conventional banking**

According to Srairi (2009) Islamic banking gives depositors the opportunity to decide the utilisation of their money based on their favoured investments whereas in conventional banking there is an entirety severance between the depositors and the banks. Besides Archer and Karim (2009) explain that Islamic banks have the ability to give out loans knowing that these credits do not generate any interest, therefore they have a power of creating money. They further elucidate that transactions are based on real assets in Islamic finance as compared to conventional banking where transactions are placed on financial assets. As noted by Sole (2007), conventional banking requires payment of interest on predetermined rate on deposits of money. However, Islamic financing promotes financial inclusion through saving. Furthermore, Putriani, Kayadibi, and Nursyamsiah (2012) explain that Islamic financing, as based on Shar'iah principles forbid any investment which supports harmful industries or activities including gambling etc.

Finally, Abdul-Rahman (2014) argues that Islamic banking is beneficial over conventional banking in terms of financial justice. Unlike conventional banking which aims for profit through interest payment and held the beneficiary liable for the risks, Islamic banks promotes sharing of profit or loss and risk associated with the investment in pre-defined proportional with the beneficiary. On the other hand, according to Obaidullah and Lattif (2008) Islamic finance and microfinance support SMEs as well as risk sharing between the investor and entrepreneur. Islamic microfinance believes the participation of poor in economic activities for the development of social goals. In addition to this Ibrahim (2003) argued that Islamic financing methods are better suited in satisfying the financial needs of SMEs because the funds can be endowed to small entrepreneurs without any debt on them to provide strict securities which SMEs often be deficient in because profit and loss sharing is critical in Islamic finance. Similarly, it is also highlighted by Khan (2008) micro-finance refers to provision of small loans to poor people through plans specifically intended to meet their particular needs. Over the last few years micro-finance is considered as an essential constituent in poverty alleviation strategies. An important function of Islamic finance as cited by Chowdhry (2006) is knack to provide economic empowerment to convert deceased capital into income generating assets to financially privilege the poor. What about conventional banking? Perhaps, you could compare them.

The making of money and business in a *halal* way is acceptable in Islam. The rule of Islamic financing guarantees the *halal* legitimacy or the legality of the transactions. As studied by Focus (2011) nowadays *halal* has emerged as a new source of economic growth. The demands of *halal* products among non-Muslims have generated enormous growth in *halal* business. According to Butt *et al* (2011) the dimensions of religion compulsion entail view to obey the elementary Islamic principles i.e. riba-free investment in *halal* business and equal sharing of wealth. In the

view of Chowdhry (2006), these all aspect to some extent are different in the conventional banking. It is also mentioned that within the conventional commercial banks, there is found a guaranteed principal and an earning on the fixed amount of the income. The Vatican newspaper has voted to support Islamic finance. According to paper, banks should look at the rules of Islamic finance to reinstate confidence among clients at a time of global economic crisis (Pollard and Samers, 2013). Musharaka is a contract of partnership between two parties. According to (Al-Kasani, 1983) the concept of partnership and its Shar'iah ruling is discussed in classical fiqh books. The bank may undertake to finance acceptable projects under the principle of musharaka in agreed shares. A musharaka can be in the form of unlimited, unrestricted and equal partnership in which the partners savour total equality in capital. Under musharaka, the amount of returns on the funds invested in not fixed. Yet, the sharing of any losses is based on the equity-participation ratio (Nor, 2008). Some Islamic banks are practicing musharaka in home financing.

## **2.7 Challenges and Constraints of Islamic Banking**

### **2.7.1 Operational challenges**

Gait and Worthington (2008) stated that the main operational challenge faced by Islamic banking is the lack of understanding among non-Muslims and even Muslims. The concept is not deeply understood by them, due to the strong footings of conventional banking system operating for centuries. Moreover, Segrado (2005) quoted that Islamic banking also face challenge arising from the multiple cultural and religious belief of a particular country. This happens due to the misperception related to the operations of Islamic institutions. In addition, Islamic banking is also challenged by the problem of lack of information about its objectives, principles and

benefits for a given country's economy. Even among Muslims, there is a dearth of information about this phenomenon.

Apart from this, Islamic banking is relatively new and it needs adequately qualified human resources for teaching, training and for Islamic Finance research purposes (Hashim, 2009). Askari, Iqbal and Mirakhor (2011) argued that these persons must be sound in knowledge not only in Islamic finance but in conventional banking as well. This is because the knowledge of both sides is beneficial to draw line of difference. But, only handful of universities offers the training and teaching courses for Islamic banking. There is also no scope of research in this field. To supply adequate human resource to such institutions, the output of research and human capital development is imperative to enable Islamic banking to survive.

In addition to this, another constraint is posed by the risk of investment in these institutions. Most of the Islamic banking institutions are challenged by the lack of profit sharing financial instruments. Mirakhor and Zaidi (2007) further explained that the transactions in Islamic banking are divided into fixed charge and predetermined profit sharing. However, this profit sharing in reality remained relatively small during the operations of Islamic banking. This challenge is severe because profit is the main driver of a business activity.

Furthermore, excessive competition to Islamic banking system is another vital challenge. No doubt, Islamic banking has grown on a multiple rate and surprised the world with its development. But, Wahyudi *et al* (2015) cited that it faces serious competition in the financial operational system by the conventional banks. This is happening because some of the conventional banks are offering a separate Islamic banking window or converting their



operations to full fledge Islamic banks. Therefore, due to their more experience and powerful development, Islamic banks are facing tough competition.

Additionally, Islamic banking system is also challenged due to the failure of appropriate high profits from the high-return projects in the markets. Čihák and Hesse (2008) found that the owners of these big projects prefer borrowing from experienced conventional banks. Together with confidence and high experiential operations, these conventional banks offer lower cost of borrowing. As a result, Islamic banks are only left with the projects offering equal or below the market-rate rate of return. Due to this, they have limited capacity and less investment opportunities than their conventional counterparts.

Finally, due to the reason of strong religious dimensions in Islamic banking, each financial innovation in these banks must meet the prescribed Shari'ah requirements. Rammal and Parker (2010) explained that this is done by approving every new financial product by the Shari'ah advisory board. Furthermore, before approval it is also followed up by the post Shari'ah auditing. However, Haqqi (2014) found that this process delays the ability of Islamic banks to take the maximum advantage of the changing in financial environment. Before the product to be approved and audited, the ideal time of a particular financial product is gone usually. This challenge is so important to be tackled because this ensures the protection of the confidence of Islamic banking clients.

### **2.7.2 Institutional challenges**

Islamic banking also faces severe institutional challenge. First, the policies and procedures are inadequate for Islamic Banking. Karim and Archer (2013) found that the lack of inter-bank transactions among Islamic banks is leading to short term financial institutions and inadequate

financial instruments. There are very few Islamic banks in the market, due to which they pose this challenge. Due to being relatively new in the market, the procedures are not yet entailed in a protected framework.

Moreover, Islamic banking also faces the major challenge by the ineffective supervision and administrative framework by the Central banks and Shari'ah advisory board of a particular country. Bello (2014) highlighted that this issue mainly arises due to the contradicting frameworks by both of these bodies. Instead of complementing them, they end up with conflicting reviews. Also, the shortage of Shari'ah scholars and Central banks supervisors with sufficient knowledge of Islamic banking is another significant challenge.

Moreover, the existing lack of fundamental legal framework which is universally accepted in many countries is another major constraint for Islamic banking. Zulhibri and Ghazal (2014) explained that the legal framework in most countries is designed to match the conventional settings. In this situation, Islamic banking is unable to operate efficiently. It operates strictly on Shari'ah basis; therefore, the court of law must design a separate legal framework for such banks to efficiently enforce the operations of Islamic banking. This framework must incorporate sufficient laws for these institutions.

Finally, Islamic banking is also challenged by the absence of dedicated financial market for its operations. Apart from this, Iqbal (2007) stated that a lack of secondary financial markets for Islamic banking is a significant challenge. The existing established financial markets are inefficient for Islamic banks because they mainly operate on interest rate basis, which is highly against the ethics of Islamic banking. There is a dire need for the establishment of secondary financial markets for Islamic banks on the Shari'ah basis. This will not only make the assets of

Islamic banks more liquid and much attractive, but it will also enable the clients of Islamic banks to mobilise their funds adequately.

The major role in order to tackle the challenges faced by Islamic banking system in a particular country should be resolved by the Central Bank authority and the regulatory bodies. Islamic Banking is another efficient way to boost economic growth and to spur the financial activity. Ignoring it can be serious setback for a country's monetary system.

## **2.8 Islamic Banking KSA and conventional banking**

### **2.8.1 Structure and Position**

The most of the KSA economy is based on Oil. Despite, the government is taking continuous efforts to lessen its reliance on petrol by forming various structures in manufacturing and agricultural industry through local investments. The private sector is continuously growing particularly as Saudi Arabia welcomes the foreign investment (Islam, 2003). Due to long term growth and development, banking system in KSA has been supported by a strong comprehensive system of banking regulation. SAMA has been a regulator for licensing banks. It has the authority to issue guidelines, regulation, strategies and rules for all banks. As Al-Suhaimi (2001) stated that SAMA has a double role of lending central payment and settlement services to banks. In Kingdom of Saudi Arabia (KSA) banking sector has considerable influence in the Middle East. Additionally, according to Alkassim (2005) Saudi Arabia has the largest assets of both conventional and Islamic banks among GCC (Gulf Cooperation Council) countries and strong position among Arab countries in banking sector. In Saudi Arabia Islamic and conventional banks operate alongside to maximise the profit in banking industry. Also (Ahmed *et al*, 2011) inspect that Islamic banks seem to be confused on their main strategic direction while many

banks do not take care on fulfilling satisfaction levels of their customers as compared to conventional banks. As a result Tarawneh (2006) found that effective resources allocation, consolidated competition, development of new technology to evolve the quality and production of novel products are the focal point of banks in Saudi Arabia to save money locally and internationally.

### **2.8.2 Market Size**

KSA banking sector has the largest market of Islamic finance in terms of assets size. According to Hassan (2009) the largest Islamic bank, Al-Rajhi Banking and Investment Corporation is based in Saudi Arabia. Most of the banks in KSA dealing in conventional manner with Shari'ah compliant business which makes it difficult to evaluate the accurate ratio of Shari'ah compliance in trading (Obaidullah, 2005). However Temporal (2011) investigated that all banks of KSA annual reporting outcomes show that all their operations are carried out with compliance of Islamic principles. A study by Iqbal and Molyneux (2016) shows evaluation of Islamic banks performance over a number of ratios produces adequate upshots. They further explain that Islamic banks are well capitalised, profitable and stable. More to the point 99% population of Saudi Arabia consists of Muslims and they are more concerned with Islamic principles and laws, therefore they keep away from dealing with the banks which provide interest (Venardos, 2012). As a consequence, many conventional banks in KSA have taken on Islamic banking system to accomplish elevated market share.

### **2.8.3 Development of Islamic banking infrastructure**

According to (Mansoor and Ishaq, 2008) in coming years, the development of Islamic banking in KSA started with murabaha solutions for financing and investment, and expanded to musharaka

transactions and project financing. In KSA Islamic banking promotes Islamic products in all areas including corporate and customer banking, investment banking (particularly in debt capital markets), asset management, and treasury. As cited by (Ahmed, 2010) these days most of the banks in the country offer Shari'ah-compliant financial products and the demand for Islamic finance keeps increasing as few of the largest banks in KSA are now completely Islamic on commercial and retail level in their product mixes.

## **2.9 Gap in literature**

There is a lot of work to be done with regard to the regulatory barriers faced by Islamic banking functions in many countries. There is a need to highlight importance of government and regulatory bodies support in bringing best practices and product sophistication. Further, it is essential to showcase the role of government in pooling the business expertise from international players. Its functioning can be mainstreamed with the international banking practices. There has been a considerable measure of work to be conducted with respect to the administrative hindrances confronted by Islamic banks in numerous nations. There has been a need to highlight the significance of government and administrative bodies in bringing the best practices. It is fundamental to showcase the part of government of Saudi Arabia in maintaining the business skills and its functioning can be mainstreamed with the universal banking. The distinction in administrative execution as figured by Return-on-Asset (ROA) and Return-on-Equity (ROE) was not statically huge (Ioannidis, et al, 2014).

Despite the fact that Islamic banks have abundance liquidity, they are not financially savvy because of their cost to salary proportion. Islamic banks have higher productivity as delineated by their Return on Investment (ROI) and Return on Equity (ROE). Moreover, Islamic

banks create less salary per unit because of absence of Shari'ah consistence in the chances of Central Bank. Moreover, they bear higher work cost due to being new and experienced financiers from customary banks an account. This research has expanded the approaches of Islamic banking but these standards apply the value work in the speculation accounts especially. It has additionally been shown that the Malaysian Islamic banks are not so much dangerous but rather more liquated because of high value to-resource proportion. There has been an immense distinction between profit for value and profit for the advantages of customary and Islamic financing (Shahari, et al, 2015).

## **2.10 Contribution to literature**

To the best of the researcher's knowledge, no detailed work based on data collected through primary sources has been done so far on the topic in Saudi Arabian context. The contribution of this study to the related literature will be results drawn from primary data collected by means of semi-structured interviews with bank managers. Though currently a lot of literature can be found on Islamic banking but this study will be a detailed addition to the literature on challenges with respect to Islamic banking faced in Saudi Arabia, which is one of the main Islamic countries in the world.

## **2.11 Chapter Summary**

The literature discusses the Islamic banking which is a financial system, dependable on Islamic principles or Shari'ah and guided by Islamic ethics. It also highlights the difference between Islamic and conventional banking. However, Islamic banking faces serious operational and institutional challenges which should be resolved to ensure proper functioning of Islamic Banking. In Saudi Arabia Islamic and conventional banks operate alongside to maximise the

profit in banking industry. The article stresses that Islamic banks should take a more strategic vision of the current situation of the global economy and employ an Islamic method of banking as a major strategic resource in KSA.

## **3 Chapter 3: Research Methodology**

### **3.1 Introduction**

Data collection techniques and methods of analysis are one of the most significant parts of any research. The most important factor in this regard is the validity and authenticity of the data gathered and approaches adopted as this would affect the authenticity of results that would be obtained through the research (Tuohy et al, 2013). This research is based upon analysing constraints and challenges faced by Islamic Banking system in which the case study of Islamic Bank within KSA is taken under consideration. This chapter discusses the main tools and techniques that are used in this research along with justification for their selection.

### **3.2 Research Philosophy**

The research philosophy would define the nature and mindset for the research which would define the basis on which the knowledge development for research would be based (Wahyuni, 2012). There are different types of research philosophies that would include Positivism, Realism, Interpretivism and Pragmatism (Watson, 2013). Positivism philosophy is based a reality or to identify the truth. On the other hand, realism philosophy is based upon the issue or factor that has not been evaluated. Interpretivism is based upon research that covers social factors or the once that are related with population for developing an answer to research questions (Watson, 2013). Considering these factors, Interpretivism is selected for this research in interpreting how the surrounding factors have been contributing in developing challenges and constraints for Islamic banking system.



The reason behind selection of interpretivism is its advantages in conducting qualitative research areas like analysing the challenges and constraints faced by Islamic Banking system. In addition, interpretivism research is linked with high validity level of data (Wahyuni, 2012). This philosophy facilitates in bringing the results in depth as it cannot be sufficiently generalised. This involves evaluation of the situation and factors affecting it in detail. In addition, the factor or issues that the research aims to investigate are associated with the social factor and the human factor. Therefore, interpretivism is best suited for this research that aims to analyse the factors contributing in bringing challenges to Islamic banking.

### **3.3 Research Design**

Based upon the nature of research, the research designs include exploratory, explanatory, descriptive and casual (Stephen et al, 2015). Exploratory research design is applied to the research that is evaluating a factor or issue that is to be evaluated for the first time, while descriptive aims to further elaborate and explain the topic that has been evaluated earlier (Stephen et al, 2015). Consequently, the most suitable research design for the current research is the descriptive design as it is focused upon further explaining and expanding the knowledge available. Descriptive research design also facilitates the development of an in depth research that can help in evaluating the challenges that are specifically faced by Islamic banking sector. In addition to it, this research design also complements the selected research philosophy of interpretivism, which is based upon evaluation of the challenges and constraints that would be faced by the Islamic banking system.

### **3.4 Research approach**

The research approach provides researcher a direction in which research would be conducted. There are two types of research approaches that would include deductive approach and inductive approach (Spector et al, 2014). Selection of the research approach depends upon the nature of research and the information that would be required for answering research questions (Eisenhardt et al, 2016). A deductive approach is applied when the research evaluates something that has been evaluated earlier (Spector et al, 2014), while an inductive approach aims to evaluate the issue or topic that has not been evaluated yet and the research leads to the development of new theory or concept (Eisenhardt et al, 2016).

Inductive approach is usually associated with the interpretivism and qualitative research. Therefore, this study employs inductive approach, whereby challenges faced by Islamic banks will be evaluated via conducting semi-structured interviews with bank managers. The purpose is to evaluate the responses and evaluate the main challenges faced by the Islamic banks in KSA. Previously extensive research has been conducted that based upon evaluation of the challenges faced by the banking sector in general. However, this research is focused specifically on challenges and constraints faced by Islamic banking sector within Islamic countries.

### **3.5 Data Collection Methods**

Generally, there are two types of data that include primary and secondary data. This research is largely based upon the collection of primary data. Secondary data is also used in order to support the findings of the primary data analysis. Primary data collection for this research involves the collection of qualitative data through conducting face-to-face interviews with managers of Islamic bank in KSA. These interviews help in gathering in-depth information about the

challenges and constraints associated with Islamic banking system as the managers should be able to provide information that is based on their experience. This also helps in identifying the specific factors that initiated the development of those specific challenges.

For the purpose of this research, semi-structured interviews were conducted with managers of Islamic banks that cover a set of open questions in order to explore the main challenges faced by the Islamic banks. Semi-structured interview questions were designed for this research as this allows the researcher to change the structure of the questions in interviews considering the situation and allowing probing for further details. The questions are developed in a way that would help in not just highlighting the challenges, but also briefing about the factors that initiated these challenges.

### **3.6 Sampling**

The face-to-face interviews were conducted with 5 managers of Islamic banks in KSA. The managers were selected for obtaining information as they would be able to provide better detail of the issues. The methods of sampling include probability and non-probability sampling. Probability sampling provides an equal opportunity for subjects to be selected for the study. This is further divided into different classes that include simple random sampling, stratified random sampling, and systematic random sampling (Acharya et al, 2013). On the other hand, non-probability sampling refers to non-random selection of the sample. Non-probability sampling includes snowball sampling method, convenience method, and judgmental sampling (Uprichard, 2013). As a result, non-probability sampling might not be representative of the population. However, sample representativeness is not the purpose of qualitative research. Instead, non-probability sampling is usually used to obtain the data. In this research, non-probability sampling

is used in which convenience sampling method is utilised for conducting interviews. These managers were selected on the basis of their availability, whereby bank managers were informed about the time and date for conducting interviews by means of the permission letter.

### **3.7 Data analysis**

The data for this research is gathered through interviews that were conducted with managers of Islamic bank within KSA. The responses would be segregated and would be analysed through thematic content analysis. Thematic content analysis is a process in which the researcher finds out the central phenomenon and analyse the data in phases. This analysis involves looking for the common themes that emerge from the data. While conducting this analysis, it would be required that it should not contain any kind of biasness. Additionally the analysis would also involve a discussion that would be conducted in the light of the literature review. This would help in developing a comparison between the previous results in the literature and the results obtained in this study. Essentially, a discussion would be developed in which the responses that are obtained through the interviews would be analysed and compared with the results of the previous studies provided in the literature review and the theoretical concepts that have been developed earlier.

### **3.8 Ethical consideration**

This research involves primary data collection and therefore includes various ethical factors that must be brought under consideration by the researcher. Most of the ethical considerations are associated with the data collection part. The information provided by the respondents should be handled securely. The managers involved in the research were informed in advance about the research and their permission was obtained through a permission letter for conducting interviews. The respondents were informed about the nature of the research. Further the

respondents were assured about the confidentiality of their personal information and the information they provide about company. They were assured that the information that they provide would be used for the research purpose only.

### **3.9 Validity and Reliability**

Validity and reliability of the data has been gathered would matter greatly. Considering the fact that this research has been developed through information that has been gathered through interviews, here the researcher might face difficulties in terms of biasness within data. This might be due to the fact that information would be gathered from a limited population in which the results would be affected by the individuals and their own perceptions greatly.

### **3.10 Chapter Summary**

The discussion provides detailed information about the method, techniques and approach that would be adopted for research. The research has been based upon Interpretivism philosophy and descriptive research design has been applied to research. Further inductive approach has been applied and research has been based upon collection of both primary and secondary data in which primary data has been gathered through interviews that were conducted from the managers of Islamic bank within KSA. The chapter also provides details about the data analysis procedure and also provides justification for the selection of every tool that has been adopted for the research.

One of the limitations would include the fact that the respondents were not always comfortable with sharing all the information for the purposes of the research. Despite the fact that they were provided with the assurance about confidentiality of the information they would be sharing and

they were given the right to quit the interview if they felt uncomfortable to participate. This could potentially have affected the information provided and the evaluation to some extent.

Another limitation is that due to the time constraints and difficulties with access to collect primary data, the research is largely focused on the responses of the five participants. However, it would be beneficial for further research to extend the number of participants included in the sample. This can provide more information and discover more patterns in the data.

Finally, the research has been focused specifically upon challenges that were faced by the Islamic banking system. Considering that this research would be applicable to the Banks operating within Islamic banking system and might not be applicable to banks operating in other regions with different operating system. This would limit the application of this research.

## **4 Chapter 4: Data Analysis**

### **4.1 Introduction**

Data analysis could be referred as a procedure of converting statistical information and data to establish a certain finding which is based on critical discussion and analysis. There are different methods of data analysis. However, this dissertation will support an analysis of the discussion and then it would be linked with the literature review to discuss the theoretical aspects of the respondents received in the interview.

Collecting primary information can be a difficult task as the current business trends do not allow the employees and the higher management to provide all the relevant information about the policies of their company necessary for the research. Therefore, gathering verified and authentic information could be a complicated task. There are various advantages of data analysis. Firstly, it helps in developing a particular structure of the data. Secondly, it helps in getting the appropriate insights of the data. Thirdly, data analysis sometimes could act as a filter to eliminate that information that is no use any helpful information remains with the researcher.

To collect data for this research, semi-structured interviews were conducted with five managers of Islamic banking to extract all the valuable information about Islamic banking and the procedure followed by them to provide benefits to the user. In addition to that, the primary aim of the interviews was to gain all the relevant information about the different modes of banking introduced through Islamic Banking.

## **4.2 Discussion**

### **4.3 Islamic Banking and its Awareness**

The first question that was asked to the managers was related to the basic definition of Islamic banking and the awareness of Islamic banking among the users. Respondent A had the views that Islamic banking could be defined as the procedure of banking operation with accordance to the Islamic principles that is Shariah. As per Shariah, all means of interest are prohibited. In order to restrict interest Islamic banking has introduced many innovative ways. Respondent B stated that, to the person who is unaware of the concepts of Islamic banking, it could be defined as the banking system which performs all its function with complete transparency and follows the Shariah system. Respondent C highlighted the fact that, defining Islamic banking and investment is difficult to such person who is not aware about this banking structure. However, Islamic banking and investments follow Islamic Shariah laws instead of international finance laws. Respondent D responded that, when it comes to defining Islamic banking to a person who is entirely unaware about it, if anyone looking for consistency and transparency, he/she should go for Islamic banking. Whereas, respondent E stated his views that Islamic banking allows potential depositors opportunity for deciding their utilisation regarding their money that has been primarily based on favoured investments. On the contrary, within conventional banking there would be an entirety severance regarding banks and depositors. Within Islamic banking, transactions are primarily based on real assets within Islamic finance when compared with conventional banking where transactions have been placed towards financial assets. The response of the question shows that different types of definitions are used by the managers to define Islamic Banking.



#### **4.4 Instruments in Islamic Banking System**

The respondents were asked about the instruments that could be used in Islamic Banking. According to Respondent A, The instruments used by Islamic banking are different from conventional banking which helps them to provide customer beneficial risk sharing procedure. These instruments include Mudarabah and Musharika. Respondent B presented his views that, Takaful and Sukuk are the instruments used in Islamic Banking systems. Respondent C has the views that, the main instruments are Musharka, Modarba, and Sukuk which are related to Islamic mortgage. Again these instruments are developed according to Islamic Shariah laws. Respondent D stated that, the most commonly used in Islamic banking system includes Sukuk, Musharka, Modarba, Islamic mortgage-Backed Securities. Respondent E highlighted that, Core instruments are Musharka, Mudaraba, Takaful and Sukuk. After analysing the responses of all the respondents it can be concluded that Musharka, Modarba and Sukuk are the main instruments generally used in the Islamic Banking system.

#### **4.5 Implementation of Shariah based instruments**

The respondents were asked about the complications of implementing the Shariah based instruments. The views of Respondent A stated that, the instruments of Shariah are very well defined as per the basic principles which provide convenience for the customers of Islamic Banking. Respondent B had the point of view that, the return on Shariah based investment is higher than the conventional system. Whereas, Respondent C stated that, Shariah based instruments are complicated as there is no fixed profit agreed on it and it has to be updated by the changes that takes place in profit and loss of the organisation. However, Respondent D favoured the implementation of Shariah based instrument by emphasizing on the fact that, Shariah based

Instruments are not at all complicated as value them both equally. Respondent E added that, “I don’t think Shariah based instruments are anyway near complicated. I personally feel that Shariah based instruments are highly beneficial over conventional banking with regards to financial justice. When compared with conventional banking, Islamic banks focus on promoting sharing of profit and loss along with the risks associated with investment in pre-defined proportions along with all associated benefits”. After the analysis of the respondent it is evident that all the respondents are in favour of implementation of Sharia’h based instruments, except for Respondent C who had the opposite view about the implementation of Shariah based instruments as compared to other instruments.

#### **4.6 Return rate on Shariah based investments**

When the respondents were asked about the return rate of Shariah while comparing it to the rate of the conventional investment, the response was as follows: according to the view of Respondent A, the return rate of Shariah based investment is less than the conventional banking. On the other hand, Respondent B reflected his views that return on Shariah based investment is higher than the conventional system. Respondent C stated that, Shariah based investment are more opportunistic than conventional as it provides opportunity to customer to avail higher return rate if company progresses, while conventional offers fixed ratio. Respondent D highlighted the fact that, It is entirely dependent on the situation and the nature of the transaction that is being done. That is why, as far as Shariah Based investment and the return rate of conventional banking is concerned, it is said that conventional banking usually offers higher interest rate than Shariah Based investment. Whereas, Respondent E had the views that, rate of Shariah based investment is less than conventional investment as Islamic banks tend to generate relatively less income per unit due to lack of Shariah compliance and low investment

opportunities through Central Bank. Moreover, they tend to bear relatively higher labor costs when compared with conventional banking. The responses of the interviewees gave mixed responses, with two participants indicating that the return on Shariah based instruments is higher than that on the conventional instruments, whereas two other participants indicated the opposite, lower return on Shariah based instruments. Respondent D, on the other hand, maintained a neutral approach to the question.

#### **4.7 Risk Associated with Shariah based Instruments**

When the respondents were asked about the risk factor associated with Shariah based Instruments as compared to the risk in conventional based instruments, the respondents responded in the following way. Respondent A had the views that, Shariah based instruments are very safe as compared to the conventional banking instruments. Respondent B also supported the Shariah based instruments by highlighting the facts that, Shariah based instruments are less risky than the conventional system. Respondent C and respondent D have had the same response. Respondent E also supported the response of other respondent by highlighting the fact that, the main problem lies in the fact that Islamic banking faces a massive challenge that arises through multiple religious and cultural beliefs of a specific country. This arises as a result of lack of understanding that is related with business operations of a country.

#### **4.8 Shariah Instruments and Satisfying Customer Needs**

The respondents were also asked about whether the customers and main clients are satisfied by the implications of Shariah instruments. According to Respondent A, Islamic banking fulfills the religious requirement of the customer by prohibiting the concept of interest. The concept of Islamic banking also fulfills the financial needs of the customer as the funds can be endowed to

the business professionals without any debt or imposing any strict rules on returning the debt on time. Respondent B emphasised on the fact that, the instruments used in the Islamic system process help customers by saving them from paying interest and fulfill the needs of the consumers by investing their assets as per their desire. Respondent C had the views that, “No, the entire needs are not satisfied. For example, Islamic Shariah banking does not offer credit cards and prize bonds which are provided in conventional banking system.” Respondent D highlighted the fact that, “Yes, the customers become highly satisfied with the instruments they are offered and that are chosen by them for making a particular transaction.” According to Respondent D, customers select instrument on the basis of their own convenience that is what makes them feel delighted. Respondent E presented his views that: “Yes, they certainly do satisfy needs of all associated customers. This is due to the fact that customers can select instruments primarily on the basis of their personal convenience. This is what makes them extremely satisfied and happy.” It is evident that majority of the respondents are in the view that the instruments of Shariah satisfy the basic needs of the consumers.

#### **4.9 Increasing customers' awareness regarding Islamic bank products and services**

The respondents were also asked about the various measures that have been taken to increase consumer awareness of the Islamic bank products and services . According to respondent A, “Islamic banking system provides customers with an opportunity to fulfill their financial needs with respect to Islamic laws and complete transparency.” According to this respondent, these benefits can help Islamic Banking to bring awareness about their concept. Respondent B highlighted the point that, “Customer awareness can be increased regarding Islamic banks products and services by providing appropriate knowledge about the benefits of the products and services to the costumers.” Respondent C presented his views that, “Customer awareness can be

increased by publicity and visiting different organisations and telling them about the benefits of Islamic bank products.” Respondent D had the opinion of increasing customer awareness through telling customers the benefits that are aligned with the bank instruments that are Islamic products. Whereas, Respondent E presented the idea that, “Customer awareness could only be increased through the means of informing them regarding the potential benefits of this mode of banking”. After the analysis of the respondents it can be viewed that different measures are being implemented by the managers to promote Islamic bank products and services to the consumers. However, still a lot of thought is required in this department.

#### **4.10 Islamic banking institutions infrastructure in KSA**

The respondents were asked about the stability of the infrastructure of Islamic Banking in KSA. In the views of Respondent A, the Islamic banking institutions infrastructure in KSA is not yet established and stabilised as it faces a lot of challenges. As per Respondent B, “the Islamic banking institutions infrastructure in KSA is facing a lot of complications in current times and is not yet as stabilised as compare to other countries”. Respondent C highlighted the fact that, “To some extent, the infrastructure of Islamic banking institution is vulnerable to risk, but it is developing in current times, so it is hoped to stabilised very soon”. According to respondent D, infrastructure in KSA of the Islamic banking is not very well-established. There are various challenges found associated with it. The lack of inter-bank transactions among Islamic banks is leading to short term financial institutions and inadequate financial instruments. Respondent E presented his opinion that, “I agree with that. This is because infrastructure within KSA of Islamic banking still lacks establishment. There are massive challenges that have been associated with them”. The analysis of the respondents shows that the Islamic Banking infrastructure currently faces a lot of challenges in the Kingdom of Saudi Arabia. Challenges that could be

specifically discussed are: transactional issues and lack of awareness among the users about the instruments used in Islamic Banking

#### **4.11 Efforts of Government of KSA in Promoting Islamic Banking**

After analysing that there are many complications and challenges faced by Islamic Banking in Kingdom of Saudi Arabia. The respondents were asked about the measures and the role played by the government to increase the awareness of Islamic banking among the users. As per respondent A, the measures taken by the government of KSA seems to be ineffective and they have not shown serious interest towards the development of building interest among the consumers. Respondent B presented his views that, the role of government has been very ineffective in taking appropriate measures to promote the concepts of Islamic banking in the business field. Moreover, lack of interest from the government towards Islamic banking has been one of the reasons of the downfall of Islamic banking in KSA. Respondent C highlighted the fact that, definitely the government of KSA highly focuses on Islamic Shariah laws, so it promotes Islamic banking system for enhancing their religious various in business transactions. Respondent D emphasised on the fact that, the government of KSA has been found promoting Islamic products in all the relating areas including customer and corporate banking as well as investment banking, treasury and asset management. Respondent E had the opinion that, “Yes they are promoting it. They have been promoting them through the means of different strategic and tactical methods.” Moreover, Respondent E added that the government promotes it to customer and corporate banking and also to treasury as well as asset management. Therefore, the majority of the respondents (three out of two) have the views that the government provides a lot of support in promoting the concept of Islamic banking. However, some innovative and creative

strategies are needed to be implemented by the government of Kingdom of Saudi Arabia to bring stability in the infrastructure of Islamic Banking in the country.

#### **4.12 Features introduced by Islamic Banking for Attracting Costumers**

When the respondents were asked about the new features that are introduced by the Islamic banking, following response were received. According to Respondent A, “In order to attract the customers in KSA, the Islamic banks have taken the imitative to provide loans to the small business owners and provided them with the luxury of paying the loan without any interest in a long span of time”. In addition to that, Islamic banks have given awareness to the audience about their transparency and fulfillments of religious concepts to attract the customers in KSA. As per Respondent B, Islamic banking has introduced the following features in their procedure to attract the customers: long time period of Loan and access in the transactions even after reaching the limits. Whereas Respondent C stated that, Islamic banks in KSA affirm religious holdings to attract customers to use their services along with meeting their financial requirements. Respondent D highlighted that, there are various ways via which Islamic banks within the KSA are attracting customers. Some of which includes informing them about the benefits as well as offering them “a handsome rate of return”. According to respondent E, there are different ways through which Islamic banks have been attracting customers to Islamic banks. The biggest core trait in this regard comprises of high rate of return for potential investors. This propels them to invest within this system. The analysis of the responses indicates that there are different ideas prevailing in the ideas of different managers that can be implemented to attract the potential consumers.

#### **4.13 Challenges faced by the Islamic banking institutions of KSA**

When the respondents were asked about the challenges faced by the Islamic Banking institutions of KSA, the following response were obtained. According to respondent A, “The major challenges faced by the Islamic banking institutions in KSA are: Ineffective policies and complications in Intra banking transactions”. As per respondent B, lack of efficiency in the infrastructure, not implementing policies effectively and lack of support from the local government is the main issued of Islamic banking institutes in KSA. Respondent C presented his views as, “in most of the cases, majority of the challenges are faced in terms of procedures and policies to meet. Many of the customers get confused to manage with the processes and calculate their earnings on their investment.” Respondent D highlighted the fact that, there are various institutional challenges being faced by the Islamic banking as there are inadequate policies and procedures. Moreover, another challenge that is faced by the Islamic banking is the inter-bank transaction. Respondent E emphasised on the fact that, “I personally think that the biggest challenge lies in the fact that the institutions tend to have inadequate policies and procedures. Another challenge lies in the fact that there are consistent problems related to inter-bank transaction.” After analysing the responses, it can be concluded that the common challenges that are being faced by the Islamic banking institutes in KSA are: inadequate policies and procedure of the bank and low rate of return.

#### **4.14 Measures to Increase the Productivity level of Islamic Banking**

The respondents were asked to provide their suggestions on how to increase the productivity of the Islamic banking. The response was as following. According to respondent A, “In order to increase the productivity level of Islamic banks, effective loan policies and attracting high



investors by building a good infrastructure”. Respondent B added that, for increasing the productivity level of Islamic banks it is pivotal for the management of the banks to explore creative and innovative means to attract maximum business accounts and use promotional techniques which will attract the customers to invest through Islamic Banking. Respondent C highlighted the fact that, productivity level can be increased by focusing more on convenient policies and easy processes that can allow and even motivate customers to invest in Islamic banks. Respondent D emphasised on the fact that, “In order to increase the productivity level of the Islamic banking, effective supervision which can be accomplished by the administrative framework. The existing gaps need to be filled which will contribute to the productivity level of the Islamic banking.” Whereas, Respondent E presented his views that, Levels of productivity can be improved through different ways. The most beneficial method in this regard would be through the means of highly effective supervision that could be achieved through the means of administrative framework.

After the analysis of the response it can be recommended that the existing gaps within this process have to be filled that would make a significant contribution towards the levels of productivity that relates to Islamic banking.

#### **4.15 Administrative and Management problems in KSA**

The respondents were also asked about the administration and management problems that were encountered in KSA. Respondent A highlighted the fact that, the management of KSA faces a lot of management and administration problems which includes lack of proper supervision and lack of coordination with the customers which brings complications in the transaction process. According to respondent B, because of weak infrastructure different problems and complications

are faced by the management. Respondent C emphasised on the fact that, Shariah financial laws cannot be dealt by any person; therefore, management and administration face problems associated with supervising issues. In addition to it, untrained staff also increases problems in managing the documents and complying with the policies. Respondent D presented his views that, well yes, the administration and the supervision issues are quite prominent problems that are being faced by the KSA. Respondent E presented his view that, supervision and administration issues have been quite common problems that have been faced by KSA. This is due to lack of understanding regarding Islamic finance as well as due to lack of information regarding this specific sector. After the analysis of the response, it is evident that the senior management needs to take immediate measures on the management problems which includes: infrastructure issues and harsh policies.

#### **4.16 Measures to Increase the Sales of the Products and Services of Islamic Banking**

The respondent in the last question were asked to provide recommendation and appropriate suggestions that could help Islamic Banking in increasing their sales of product and services. According to respondent A, Following actions can be included to increase the sales of the products and services of Islamic banking institutions: door to door promotion at professional level to bring awareness among the emerging professionals of using the services and products of Islamic banking institutes and providing information about the benefits of the instruments implemented in the Islamic banking institutes to attract customers. Respondent B presented his views that, “In order to increase the sales of the products and services, the Islamic banking institutes can use the social media platforms and discount offers to attract customers.” Respondent C highlighted the fact that, Islamic banking institution shall increase their sales by conducting different promotions and offering services which are under the Shariah laws and

present religious holdings of using such services. Moreover, comparison of conventional banking and Islamic should be offered for convincing customers. Respondent D highlighted the fact that, for increasing the sales of the products and services, it has been noted that Islamic banking considers promotional technique in order to increase the sales. Respondent E emphasised on the fact that, Islamic banking should focus on considering different conventional and unconventional marketing techniques for increasing its sales. After the analysis of the response it can be concluded that role of social media seems to play an important role in increasing the sales of the product and services. In addition to that, door to door marketing campaign can also attract potential customers.

#### **4.17 Main Themes and Comparison with Literature**

##### **4.17.1 Shariah instruments VS conventional banking instruments**

The first main questions had the primary objective to identify the differences between the instruments used in conventional banking and the Islamic banking. As per the finding it is evident that the instruments and policies of Islamic and Conventional banking very different. As the Islamic banking follows more of the instruments that disables the individual to earn less interest.

According to the research of Badreldin (2009), the approaches adopted by the Islamic and conventional banking are very different this makes them different from each other. The common instruments used in Shariah are Musharka, Modarba and Sukuk. On the contrary, these instruments are not used in the conventional banking system. The research of Al- Ajmi et al (2009) highlighted the fact that, the performance of Islamic banking has been exceptional in the Islamic countries but after analysing the performance globally, it can be concluded that the

performance of conventional banking has been more satisfying the needs of the consumers. High rate of return and flexible policies and procedure of conventional banking are the main aspects that are able retain the existing consumers and attract the potential consumers.

#### **4.17.2 Customer Satisfaction and Role of Government**

According to Ahmed et al (2010), strategies developed by the Islamic banking have not been able to satisfy the needs of the consumer. In addition to that, the consumers are also confused by the policies and procedure of the Islamic banking. As per the client perspective, there are still complications to understand the system of Islamic banking. However, the conventional banking system has provided more flexible and favourable policies to their clients (Taraweh, 2006). From the findings, it is evident that the infrastructure of Islamic Banking in Kingdom of Saudi Arabia has been facing a lot of complications in stabilising their methods. Therefore, the role of government is to ensure that they support the Islamic banking structure by having faith in their strategies and plans. In addition to that, it is also the responsibility of the government to ensure that friendly and favourable strategies are developed for banks to continue their expansion and they can settle in the industry and gain more confidence.

#### **4.17.3 Challenges faced by the Islamic Banking Institutions**

The findings of this study identified various problems and challenges encountered by the Islamic Banking institutions. According to the research of Gait and Worthington (2008) Muslims and Non-Muslims both are still not able to understand the concept of Islamic Banking and one reason for this misconception can be the difficult policies and procedure implemented by the Islamic Banking. The research of Karim and Archer (2013) highlighted the fact that, lack of transactions in the Islamic banking system creates complications for the bank to create long term financial

institutions. On the contrary, from the findings it could be analysed that many awareness projects are implemented by the management of Islamic banking that have increased the awareness among the users.

#### **4.18 Chapter Summary**

After studying the findings, it can be viewed that the management of Islamic Banking is making a lot of efforts in increasing their awareness among the potential users who are still facing a lot of confusion regarding the policies followed in Islamic Banking. In addition to that, the findings have also analysed the role of Saudi government in increasing the awareness of Islamic banking and it is evident that still a lot of efforts are needed from the government as their role up till now has been ineffective. It can also be analysed that there are many management challenges such as: weak infrastructure and transactional issues that need to be taken care of.

## **5 Chapter 5 : Conclusion and Recommendation**

### **5.1 Summary of Findings**

This chapter involves the findings with respect to the interviews, literature review and research which have been conducted concerning Saudi Arabia. There has been a requirement for Islamic finance and banking sector. Muslim framework takes after Shari'ah, and they started to maintain a strategic distance from the ordinary framework on the basis of premium framework. This now works effectively everywhere throughout the world, called Islamic Banking. The literature review have revealed that there have been different methodologies highlighted in which Islamic banks an account is very not the same as the traditional banking.

Al-Muharrami, (2014), concentrated the utilisation of economic proportions, the execution of Islamic versus routine banks and about ordinary and Islamic banks. The research participants have determined their experiences and several other factors in this regard. He investigated six Islamic and six traditional banks amid 2006-09 clarified that Islamic banks are presented to lesser fluidity dangers in view of high fluidity as forced by the standards of Shari'ah limitation. Additionally, the research participants have evaluated the value to-resource proportion and their extent of more prominent interest along with the approaches of government securities.

### **5.2 Conclusion**

From the literature review, it has been demonstrated that the complications of Islamic bank in an economy is extremely basic and depends on comprehension the application and administration of shariah based instrument adequately (Beck, et al, 2013). The expenses of operational necessities of banks are high and charges are not huge, banks require enthusiasm of

its clients to contribute. In such manner, the development and ascent of Islamic banks have been very remarkable as they have gathered noteworthy measures. Islamic banks confront extreme institutional complications. To begin with, the arrangements and methods are insufficient for Islamic Banking. BinMahfouz, & Ahmed, (2014), found that the absence of standards between banks is prompting to economic organisations along with insufficient financial instruments. There have been not many Islamic banks in the market, because of which they represent this complications. Due to being generally new in the market, the methods are not yet involved in an ensured system.

This research has demonstrated that the Islamic saving confronts the complications by the incapable supervision and authoritative system by the Central banks and Shari'ah counselling leading body of a specific nation. Hassan, et al, (2013), highlighted that this issues because of the negating structures by both of these bodies. Likewise, the deficiency of Shari'ah researchers and Central banks with adequate learning of Islamic banks is another noteworthy complication. The literature review has determined that the current absence of legalised structure is another issue for Islamic banks. Hussein, (2015), clarified that the legitimate system is intended to coordinate the routine settings. In this circumstance, Islamic financing might not work effectively and it works entirely on Shari'ah premise; the government must plan a different legitimate structure for such banks to effectively uphold the operations of Islamic savings. This structure must consolidate the adequate laws for these organisations.

The literature review and research has indicated that the absence of optional economic markets for Islamic financing is a huge complication. The interviews which were conducted in this paper, also demonstrated several concerns. They determined that the current financial markets are extravagant for Islamic banks since they fundamentally work on loan fee premise,

which is against the morals of Islamic financing(Beck, et al, 2013). There has been a critical requirement for the foundation of auxiliary financial markets for Islamic puts money on the Shari'ah premise. This might not just make the benefits of Islamic banks more fluid and much alluring, yet it will likewise empower the customers of Islamic banks to activate their assets enough. The interviews also stated that Islamic Banking is another proficient approach to help economic development and to goad the financial action. Disregarding it can be not kidding difficulty for a nation's economic framework.

### **5.3 Recommendation**

Various suggestions and activities can be incorporated to expand the offers of the administrations of Islamic banking organisations. The Saudi Arabian Government can make a way to advance the expert level with respect to the Islamic banking by utilizing the administrations. The implications can be executed in Islamic banks by giving data about the advantages of the instruments executed in the Islamic foundations to draw in clients. Suggestions have been made for the Saudi Arabian Government along with the private organisations (Singh, & Das, 2013).

The Islamic financing foundations can utilise the web-based social networking stages to draw in clients. Islamic banks might be expanded by directing distinctive advancements and offering administrations which are under the shariah laws. They must present religious properties and features of utilizing such administrations. Also, correlation of customary banks might be offered for expanding the offers and administrations. From this research, it has been noticed that Islamic banks considers limited time procedure to build the deals. Islamic financing should concentrate on considering diverse traditional and promoting strategies for expanding its



approaches. After the inspection of this research, it is consistent that online networking appears to assume a critical part in expanding the offers of the item and administrations.

Islamic banks must pay attention to the people about their sincerity and achievements of religious ideas to pull in the clients in Saudi Arabia. Islamic banks must present the fundamental elements in their technique to pull in the clients and access the exchanges in achieving the points of confinement. Islamic banks must consider the complications and the approaches of religious properties in Saudi Arabia to pull in clients to utilise their administrations alongside meeting their economic necessities. Some of which incorporates letting them know the advantages and also offering nice looking rate of return (Waemustafa, 2013). There have been diverse courses through which Islamic banks can engage clients for Islamic banks. The complications in such manner involves high rate of return for the potential financial specialists, this can move them to contribute in this framework. In Saudi Arabia Islamic and ordinary banks should be linked expand the banking industry. The further research would focus on those Islamic banks as the key vision of the present circumstances of the worldwide economy. The predicted areas must utilise the Islamic techniques for banks and they would emerge as the vital assets in Saudi Arabia.

#### **5.4 Areas of Future Study**

This research can be focused and utilised for the future studies although the research band implications should be further modified. This would additionally highlight the contrast amongst Islamic and traditional banking. Islamic financing has to face operational and institutional difficulties which must be linked with the effective strategies. This is linked for the better implications of the Halal ways to save the money, this involves the future researches in the segment of advanced regulations for Banking. By considering the challenges and constraints of

the Conventional and Islamic Banking systems in Saudi Arabia, the implications can be executed (O'Leary, and O'Leary, 2010).

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## **7 Appnedix**

### **7.1 Interview Transcripts**

#### **7.1.1 Interview Transcript A**

##### **Interview Questions**

**Main question 1:** How between Sharia'h instruments can be compared t o the conventional banking instruments?

##### **Sub Questions**

1. How do you define Islamic banking and investment to the person who is unaware of this kind of banking?

In my opinion, Islamic banking could be defined as the procedure of banking operation with accordance to the Islamic principles that is Shariah. As per Shariah, all means of interest are prohibited. In order to restrict interest Islamic banking has introduced many innovative ways.

2. What are the instruments of Islamic Banking system?

The instruments used by Islamic banking are different from conventional banking which helps them to provide customer beneficial risk sharing procedure. These instruments include Mudarabah and Musharika.

3. Do you feel that the Shariah based instruments are more complicated? if yes then please explain how?

According to my opinion, the instruments of Shariah are very well defined and are as per the basic principles which provide convenience for the customers of Islamic Banking.

4. In your opinion is the return rate on Shariah based investment less than the conventional banking instruments?



As per my opinion, the return rate of Shariah based investment is less than the conventional banking.

5. Do you believe that the Shariah based instruments are more risky than the conventional banking instruments? if yes then please explain how?

According to my opinion, the Shariah base instruments are very safe as compare to the conventional banking instruments.

**Main Question 2:** How these banking instruments are associated with the customer satisfaction and what is the role of government in this?

### **Sub Questions**

1. Do they satisfy all customers need? If yes then please explain how?

By following the instruments of Shariah, Islamic banking fulfils the religious requirement of the costumer by prohibiting the concept of interest. The concept of Islamic banking also fulfills the financial needs of the customer as the funds can be endowed to the business professionals without any dept or implying any strict rules on returning the dept on time.

2. How to do increase customers' awareness regarding Islamic bank products and services?

Ans. Islamic banking system provides customer with an opportunity to fulfill their financial needs with respect to Islamic laws and complete transparency. These benefits can help Islamic Banking to bring awareness about their concept.

3. Do you feel that Islamic banking institutions infrastructure in KSA is not yet stabilised is very vulnerable to risks?

Ans. Yes, the Islamic banking institutions infrastructure in KSA is yet not established and stabilised as it faces a lot of challenges. These challenges include:

- Ineffective implications of the instruments in Islamic banking
- Interbank financial transactions are low within the expectations in Islamic banking

4. Do you believe that the government of KSA is promoting or promotes the Islamic banking system in a country? if yes then please explain how?

Ans. As per my observation, the measures taken by the government of KSA seems to be ineffective and they have not shown serious interest towards the development of building interest among the consumers.

5. What features are being provided by Islamic banks in KSA to attract customers?

In order to attract the customers in KSA, the Islamic banks have taken the initiative to provide loans to the small business owners and provided them the luxury of paying the loan without any interest in a long span of time. In addition to that, Islamic banks

have given awareness to the audience about their transparency and fulfillments of religious concepts to attract the customers in KSA

**Main Question 3:** How the KSA Islamic banking institutions can be improvised?

### **Sub Questions**

1. What are the major challenges faced by the Islamic banking institutions of KSA?

The major challenges faced by the Islamic banking institutions in KSA are:

- Ineffective policies
- Complications in Intra banking transactions

2. Please briefly explain how the productivity level of Islamic banks can be increased?

In order to increase the productivity level of Islamic banks, effective loan policies and attracting high investors by building a good infrastructure.

3. Do you think that Islamic banking institutions of KSA face various management and administration problems? if yes then please explain how?

Yes I think that the management of KSA faces a lot of management and administration problems which includes lack of proper supervision and lack of coordination with the customers which brings complications in the transaction process.

4. What action should the Islamic banking institution take to increase the sale of their products and services?

Following actions can be included to increase the sales of the products and services of Islamic banking institutions

- Door to door promotion at professional level to bring awareness among the emerging professionals of using the services and products of Islamic banking institutes.
- Providing information about the benefits of the instruments implemented in the Islamic banking institutes to attract customers.

## 7.1.2 Interview Transcript B

### Interview Questions

**Main question 1:** How between Sharia'h instruments can be compared to the conventional banking instruments?

### Sub Questions

1. How do you define Islamic banking and investment to the person who is unaware of this kind of banking?

Ans. To the person who is unaware of the concepts of Islamic banking, it could be defined as the banking system which performs all its function with complete transparency and follow the Shariah system.

2. What are the instruments of Islamic Banking system?

Takaful and Sukuk are the instruments used in Islamic Banking systems.

3. Do you feel that the Sharia'h based instruments are more complicated? if yes then please explain how?

The Shariah banking instruments are a bit complicated as it contains different laws and rules for each situation which makes it complicated for the customers to remember each policy.

4. In your opinion is the return rate on Sharia'h based investment less than the conventional banking instruments?

According to my opinion, the return on Shariah based investment is higher than the conventional system.

5. Do you believe that the Sharia'h based instruments are more risky than the conventional banking instruments? if yes then please explain how?

As per my believe, the Shariah based instruments are less risky than the conventional system.

**Main Question 2:** How these banking instruments are associated with the customer satisfaction and what is the role of government in this?

### **Sub Questions**

1. Do they satisfy all customers need? if yes then please explain how?

The instruments implied in the Islamic system process helps the customers to save them from paying interest and fulfil the needs of the consumers by investing their assets as per their desire.

2. How to do increase customers' awareness regarding Islamic bank products and services?

Customer awareness can be increased regarding Islamic banks products and services by providing appropriate knowledge about the benefits of the products and services to the costumers.

3. Do you feel that Islamic banking institutions infrastructure in KSA is not yet stabilised is very vulnerable to risks?

The Islamic banking institutions infrastructure is KSA is facing a lot of complications in current times and is not yet as stabilised as compare to other countries.

4. Do you believe that the government of KSA is promoting or promotes the Islamic banking system in a country? if yes then please explain how?

According to my opinion, the role of government has been very ineffective in taking appropriate measures to promote the concepts of Islamic banking in the business

field. Moreover, lack of interest from the government towards Islamic banking has been one of the reasons of the downfall of Islamic banking in KSA.

5. What features are being provided by Islamic banks in KSA to attract customers?

Islamic banking have introduced the following features in their procedure to attract the customers:

- Long time period of Loan
- Access in the transactions even after reaching the limits.

**Main Question 3:** How the KSA Islamic banking institutions can be improvised?

### **Sub Questions**

1. What are the major challenges faced by the Islamic banking institutions of KSA?

Lack of efficiency in the infrastructure, not implementing policies effectively and lack of support from the local government are the main issued of Islamic banking institutes in KSA.

2. Please briefly explain how the productivity level of Islamic banks can be increased?

For increasing the productivity level of Islamic banks it is pivotal for the management of the banks to explore creative and innovative means to attract maximum business accounts and use promotional techniques which will attract the customers to invest through Islamic Bankings.

3. Do you think that Islamic banking institutions of KSA face various management and administration problems? if yes then please explain how?

In my opinion, because of week infrastructure different problems and complications are faced by the management.

4. What action should the Islamic banking institution take to increase the sale of their products and services?

In order to increase the sales of the products and services, the Islamic banking institutes can use the social media platforms and discount offers to attract customers.

### **7.1.3 Interview Transcript C**

#### **Interview Questions**



**Main question 1:** How between Sharia'h instruments can be compared to the conventional banking instruments?

### **Sub Questions**

1. How do you define Islamic banking and investment to the person who is unaware of this kind of banking?

Indeed, defining Islamic banking and investment is difficult to such person who is not aware about this banking structure. However, Islamic banking and investments follow Islamic Shariah laws instead of international finance laws.

2. What are the instruments of Islamic Banking system?

The main instruments are Musharka, Modarba, Sukuk which are related to Islamic mortgage.

Again these instruments are developed according to Islamic Shariah laws.

3. Do you feel that the Sharia'h based instruments are more complicated? if yes then please explain how?

Yes, Shariah based instruments are complicated as there is no fixed profit decided in it and it has to be updated by the changes takes place in profit and loss of the organisation.

4. In your opinion is the return rate on Sharia'h based investment less than the conventional banking instruments?

I don't think so but Shariah based investment are more opportunistic than conventional as it provides opportunity to customer to avail more return rate if company progresses, while conventional offers fixed ratio.

5. Do you believe that the Sharia'h based instruments are more risky than the conventional banking instruments? if yes then please explain how?

No, it is not, because banks do not impose laws for maintaining their image and customer loyalty; so there are no chances of loss to customers which can lead risks in their transactions.

**Main Question 2:** How these banking instruments are associated with the customer satisfaction and what is the role of government in this?

### **Sub Questions**

1. Do they satisfy all customers need? if yes then please explain how?

No, the entire needs are not satisfied. For example, Islamic shariah banking does not offer credit cards and prize bonds which are provided in conventional banking system.

2. How to do increase customers' awareness regarding Islamic bank products and services?

Customers' awareness can be increased by publicity and visiting different organisations and telling them about the benefits of Islamic bank products.

3. Do you feel that Islamic banking institutions infrastructure in KSA is not yet stabilised is very vulnerable to risks?

To some extent, the infrastructure of Islamic banking institution is vulnerable to risk, but it is developing in current times, so it is hoped to them stabilised very soon.

4. Do you believe that the government of KSA is promoting or promotes the Islamic banking system in a country? If yes then please explain how?

Definitely, government of KSA highly focuses on Islamic Shariah laws, so it promotes Islamic banking system for enhancing their religious various in business transactions.

5. What features are being provided by Islamic banks in KSA to attract customers?

Islamic banks in KSA affirm religious holdings to attract customers to use their services along with meeting their financial requirements.

**Main Question 3:** How the KSA Islamic banking institutions can be improvised?

### **Sub Questions**

1. What are the major challenges faced by the Islamic banking institutions of KSA?

In most of the cases, majority of the challenges are faced in terms of procedures and policies to meet. Many of the customers get confused to manage with the processes and calculate their earnings on their investment.

2. Please briefly explain how the productivity level of Islamic banks can be increased?

Productivity level can be increased by focusing more on convenient policies and easy processes that can allow and even motivate customers to invest in Islamic banks.

3. Do you think that Islamic banking institutions of KSA face various management and administration problems? if yes then please explain how?

Indeed, because shariah financial laws cannot be dealt by any person; therefore, management and administration face problems associated with supervising issues. In addition to it, untrained staff also increases problems in managing the documents and complying with the policies.

4. What action should the Islamic banking institution take to increase the sale of their products and services?

Islamic banking institution shall increase their sales by conducting different promotions and offering services which are under the shariah laws and present religious holdings of using such services. Moreover, comparison of conventional banking and Islamic should be offered for convincing customers.

## 7.1.4 Interview Transcript D

### Interview Questions

**Main question 1:** How between Sharia'h instruments can be compared to the conventional banking instruments?

#### Sub Questions

6. How do you define Islamic banking and investment to the person who is unaware of this kind of banking?

When it comes to defining Islamic banking to a person who is entirely unaware about the fact, I would just say, if anyone looking for consistency and transparency, he/she should go for Islamic banking.

7. What are the instruments of Islamic Banking system?

The most commonly used in Islamic banking system includes Sukuk, Musharka, Modarba, Islamic mortgage-Backed Securities.

8. Do you feel that the Sharia'h based instruments are more complicated? if yes then please explain how?

No, I don't think that Shariah based Instruments are not at all complicated as value them both equally.

9. In your opinion is the return rate on Sharia'h based investment less than the conventional banking instruments?

It is entirely dependent on the situation and the nature of the transaction that is being done.

That is why, as far as Shariah Based investment and the return rate of conventional banking

is concerned, it is said that conventional banking usually offers higher interest rate than Shariah Based investment.

10. Do you believe that the Sharia'h based instruments are more risky than the conventional banking instruments? if yes then please explain how?

No, I don't think they are risky, as Shariah based instrument are not risky as they are aligned with the concept Islamic banking. So, as per my view, Shariah based instrument are the safest.

**Main Question 2:** How these banking instruments are associated with the customer satisfaction and what is the role of government in this?

### **Sub Questions**

6. Do they satisfy all customers need? if yes then please explain how?

Yes, the customers become highly satisfied with the instruments they are offered and that is chosen by them for making a particular transaction. Customers select instrument on the basis of their own convenience, that is why which makes them feel delighted.

7. How to do increase customers' awareness regarding Islamic bank products and services?

Awareness among the customers can be increased by means of telling customers the benefits that are aligned with the bank instruments that are Islamic products.

8. Do you feel that Islamic banking institutions infrastructure in KSA is not yet stabilised is very vulnerable to risks?

Yes, I agree to this point, infrastructure in KSA of the Islamic banking is really not that much established. There are various challenges being found associated with it. I believe that lack of inter-bank transactions among Islamic banks is leading to short term financial institutions and inadequate financial instruments.

9. Do you believe that the government of KSA is promoting or promotes the Islamic banking system in a country? If yes then please explain how?

Yes, I agree it this, it has been mentioned that the government of KSA has been found promoting Islamic products in all the relating areas including customer and corporate banking as well as investment banking, treasury and asset management.

10. What features are being provided by Islamic banks in KSA to attract customers?  
There are various ways via which Islamic banks within the KSA are attracting customers. Some of which includes telling them the benefits as well as offering handsome rate of return.

**Main Question 3:** How the KSA Islamic banking institutions can be improvised?

### **Sub Questions**

5. What are the major challenges faced by the Islamic banking institutions of KSA?

There are various institutional challenges being faced by the Islamic banking as there are inadequate policies and procedures. Moreover, another challenge that is being faced by the Islamic banking is the inter-bank transaction.

6. Please briefly explain how the productivity level of Islamic banks can be increased?

In order to increase the productivity level of the Islamic banking, I think that it requires effective supervision which can be accomplished by the administrative framework. The existing gaps need to be filled which will contribute to the productivity level of the Islamic banking.

7. Do you think that Islamic banking institutions of KSA face various management and administration problems? if yes then please explain how?

Well yes, the administration and the supervision issues are quite prominent problems that are being faced by the KSA.

8. What action should the Islamic banking institution take to increase the sale of their products and services?

For increasing the sales of the products and services, it has been noted that Islamic banking considers promotional technique in order to increase the sales.



## 7.1.5 Interview Transcript E

### Interview Questions

**Main question 1:** How between Sharia'h instruments can be compared to the conventional banking instruments?

#### Sub Questions

- 1. How do you define Islamic banking and investment to the person who is unaware of this kind of banking?**

Islamic banking allows potential depositors opportunity for deciding their utilisation regarding their money that has been primarily based on favoured investments. On the contrary, within conventional banking there would be an entirety severance regarding banks and depositors. Within Islamic banking, transactions are primarily based on real assets within Islamic finance when compared with conventional banking where transactions have been placed towards financial assets.

- 2. What are the instruments of Islamic Banking system?**

Core instruments are Musharka, Mudaraba, Takaful and Sukuk.

- 3. Do you feel that the Sharia'h based instruments are more complicated? if yes then please explain how?**

I don't think Shariah based instruments are anyway near complicated. I personally feel that Shariah based instruments are highly beneficial over conventional banking with regards to financial justice. When compared with conventional banking, Islamic banks

focuses on promoting sharing of profit and loss along with the risks associated with investment in pre-defined proportional along with all associated beneficiaries.

4. In your opinion is the return rate on Sharia'h based investment less than the conventional banking instruments?

Yes. I agree with that. This is primarily due to the fact that Islamic banks tend to generate relatively less income per unit due to lack of Shari'ah compliance and low investment opportunities through Central Bank. Moreover, they tend to bear relatively higher labor costs when compared with conventional banking.

5. Do you believe that the Sharia'h based instruments are more risky than the conventional banking instruments? if yes then please explain how?

I don't think they are risky. The main problem lies in the fact that Islamic banking faces a massive challenge that arises through multiple religious and cultural beliefs of a specific country. This arises as a result of lack of understanding that are related with business operations of a country.

**Main Question 2:** How these banking instruments are associated with the customer satisfaction and what is the role of government in this?

### **Sub Questions**

- 1. Do they satisfy all customers need? if yes then please explain how?**

Yes, they certainly do satisfy needs of all associated customers. This is due to the fact that customers can select instruments primarily on the basis of their personal convenience. This is what makes them extremely satisfied and happy.

**2. How to do increase customers' awareness regarding Islamic bank products and services?**

Customer awareness could only be increased through the means of informing them regarding the potential benefits of this mode of banking.

**3. Do you feel that Islamic banking institutions infrastructure in KSA is not yet stabilised is very vulnerable to risks?**

I agree with that. This is because infrastructure within KSA of Islamic banking still lacks establishment. There are massive challenges that have been associated with them.

**4. Do you believe that the government of KSA is promoting or promotes the Islamic banking system in a country? if yes then please explain how?**

Yes they are promoting it. They have been promoting them through the means of different strategic and tactical methods. Moreover, they are promoting it to customer and corporate banking and also to treasury as well as asset management.

**5. What features are being provided by Islamic banks in KSA to attract customers?**

There are different ways through which Islamic banks have been attracting customers for Islamic banks. The biggest core trait in this regard comprises of high rate of return for potential investors. This propels them to invest within this system

**Main Question 3:** How the KSA Islamic banking institutions can be improvised?

## Sub Questions

### **1. What are the major challenges faced by the Islamic banking institutions of KSA?**

I personally think that the biggest challenge lies in the fact that the institutions tend to have inadequate policies and procedures. Another challenge lies in the fact that there are consistent problems related to inter-bank transaction.

### **2. Please briefly explain how the productivity level of Islamic banks can be increased?**

Levels of productivity can be improved through different ways. I think the most beneficial method in this regard would be through the means of highly effective supervision that could be achieved through the means of administrative framework. The existing gaps within this process have to be filled that would make a significant contribution towards the levels of productivity that relates to Islamic banking.

### **3. Do you think that Islamic banking institutions of KSA face various management and administration problems? If yes then please explain how?**

I do agree that supervision and administration issues have been quite common problems that have been faced by KSA. This is due to lack of understanding regarding Islamic finance as well as due to lack of information regarding this specific sector.

### **4. What action should the Islamic banking institution take to increase the sale of their products and services?**

I personally believe that Islamic banking should focus on considering different conventional and unconventional marketing techniques for increasing its sales.

