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*Attitudes of Muslims towards Islamic Banking
and Finance in the North West of England: A
socio-economic perspective*

NAEEM UR RAHMAN

APRIL 2012

A Thesis Submitted in Partial Fulfilment of the Requirements for the Degree of
Doctor of Philosophy

Durham Centre for Islamic Economics and Finance

(A Joint Centre: SGIA & DBS)

DURHAM UNIVERSITY DURHAM, UK

Abstract

The tremendous growth and widespread expansion of Islamic banking industry in the financial markets of the world has made this newly born industry a ground reality. More than 400 banks are operating in over 75 countries of the world. The assets of Islamic banking industry around the world are over \$ 1.1 trillion in 2012. Another factor of the attraction of Islamic banking industry is the resilience which Islamic banks have shown in the current global financial crisis. The UK, because of its legal and financial environment has become a centre of Islamic banking and finance in the west and stands as number 8 in world ranking.

The presence and ever growing considerable segment of Muslim population in the UK and their social, cultural and religious identity require a faith based banking system which is compatible with their beliefs and values. The demographics of the Muslim population and the ideological differences supported the argument that the Islamic banks can produce significant socio-economic impact. The social aspect of banking institutions is a new development in the discipline. The dissertation explores the attitudes of Muslims in the North West of England towards Islamic banking and finance and what is the potential of Islamic banking and finance from socioeconomic perspective in the region.

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I pray to Allah to give all of them the best reward they deserve.

Declaration

I hereby declare that no portion of the work that appears in this study has been used in support of an application for another degree or qualification of this or any other university or institution of learning.

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List of Abbreviations

ABC: Arab Banking Corporation

ABCIB: Arab Banking Corporation International Bank Ltd

AFG: Ansar Finance Group

AHL: Ansar Housing Limited

ATM: Automated Teller Machine

AUBUK: *Ahle* United Bank United Kingdom

BLME: Bank of London and the Middle East

EIIB: European Islamic Investment Bank

EFH: European Finance House

FSA: Financial Services Authority

FTC: Fairly Treating Customers

GCC: Gulf Cooperation Council

IAM: Islamic Assets Management

IBB: Islamic Bank of Britain

IBF: Islamic Banking and Finance

ICT: Information and Computer Technology

IFIs: Islamic Financial Institutions

IFSL: International Financial Services London

HMRC: Her Majesty's Revenue and Customs

HSBC: Hong Kong and Shanghai Banking Corporation

LIBOR: London Inter Bank Offered Rate

MENA: Middle East and North Africa

OIC: Organization of Islamic Countries

ONS: Office of National Statistics UK

PLS: Profit and Loss Sharing

QIB: Qatar Islamic Bank UK Ltd

RBS: Royal Bank of Scotland

SCF: *Shari'ah* Compliant Finance

UK: The United Kingdom

UNBUK: United National Bank United Kingdom

Introduction

1.1 Background

Islamic banking has become a reality; hence there is no point in discussing the viability and profitability of such financial intermediaries which are based on interest free banking principles. The concept has gained a lot of significance and attracted a widespread attention of many bankers, experts of finance, economists and investors from the main stream and traditional banking sector of the global economy. The reason behind it was the tremendous global and widespread expansion of the Islamic banking industry in the financial markets of the world. More than 400 banks are operating in over 75 countries of the world as interest-free Shari'ah compliant financial intermediaries and the assets of Islamic banking industry around the world are over \$ 1.1 trillion in 2012 and the tremendous growth rate is 20 % (Earnest & Young Report 2012). Another overwhelming factor of the attraction of Islamic banking industry in the capital markets of the world is the resilience which Islamic banks have shown in the current financial crisis of the world which started in 2007 and still impeding the growth of many economies around the globe. The recent financial crisis not only leads to great reforms in the conventional banking system of the world and it is requiring more regulatory control on the operational mechanism of the industry but it also opened new avenues of options and alternatives of the global financial system.

The growth rate of the Islamic banking industry has been estimated in 2012 as high as 20 % which is more than double as compared to the growth rate of traditional interest-based banking. For this reason, not only Muslims are very much interested in this new rapidly growing industry but the non-Muslim bankers and investors are also very keen in the operational framework of this newly established banking system which is not based on any type of interest-bearing transaction. The industry is expected to continue this rapid pace of growth for many years ahead. There are many economic, political and social factors working behind this ever increasing demand of *Shari'ah* compliant financial products.

Initially, the Middle East was the birthplace and the centre of Islamic banking (Iqbal & Mirakhor, 2007), but eventually the practice of Islamic banking widely spread to other Western countries of Europe and America, many Muslim and non-Muslim countries of Africa and South Asia. So much so that within a short span of 25 years, not only the Islamic banks were operating in the rapidly growing industry, but many high street traditional interest-based banks like Citibank, HSBC, Lloyds TSB, Natwest etc. also started this new type of Shari'ah compliant financial service and opened their windows of Islamic banking. Halal mortgages and Amanah housing finance and Amanah current accounts have already been introduced in the UK by some traditional banks. Now it seems that there is an environment of competition and rivalry among these banks to attract the Muslim community. New Shari'ah compliant financial products are in the pipeline. Few years ago, Lloyds TSB has launched a student account for Muslim students offering some interest-free overdraft limit from £1500 to £2000 for three years or longer courses respectively (Guardian, 23rd August, 2006).

For a long time the idea remained only a theoretical approach of understanding the prohibition of interest and presenting the principles of Islamic social and economic justice into practice. But this idea of Islamic banking was put forward in its operational and practical form in early 70s of the twentieth century. Since then it is not only working successfully but its tremendous growth has raised many issues in the banking industry and it has captured an immense significance in the capital and financial markets of the world. Before the emergence of Islamic banking industry, the concept of interest free banking and prohibition of interest was mocked at and the idea of Islamic Economics was known as 'woodoo economics' in the Wall Street Journal of 90s to indicate the impossibility of practising such ideas in real life (Asutay, 2010)

Despite the rapid growth and vast expansion of Islamic banking industry around the world, the fact remains that 'The provision and use of financial services and products that conform to Islamic religious principles pose special challenges for the identification, measurement, monitoring, and control of underlying risks. Effective and efficient risk management in Islamic financial institutions has assumed particular importance as they endeavour to cope with the challenges of globalization. This requires the development of not only a more suitable regulatory framework, but also new financial instruments and institutional arrangements to provide an enabling operational environment for Islamic finance' (Sundararajan & Errico, 2002)

Basically it is the Muslim population showing a strong commitment to following the divine doctrines of social justice and moral ethics in the socio-economic framework of Islam, as the most distinctive feature of Islamic banking, prohibition of interest contributed reasonably to this segment of the capital market. The Muslim population around the world is nearly 1.3 billion and this population is not only residing in the Muslim countries of Asia and Africa in the surrounding countries of Arabic peninsula where the dawn of Islam emerged and spread to other parts of the world 14 centuries ago. But now the Muslim community is living everywhere around the globe and even in the West (Europe and America) in the form of ethnic minorities.

In the U.K. according to the census 2011 of ONS (www.ons.gov.uk › [Home](#) › [Publications](#)) there are nearly 2.7 million Muslims living in the UK, and this segment of the population comprises 4.8 % of total estimated population of the country i.e. 63 million. The Muslim community in the U.K. created a great demand for Islamic financial products. A vast majority of Muslims does not want to compromise with their faith and therefore the Islamic banking and financial system which is based on prohibition of interest and other ethical values and religious norms is becoming more and more popular among this community in the U.K. The legal framework and financial regulatory authorities are doing their best to provide Islamic banking services in the U.K. My potential area of research is to study the Islamic banking and financial services in the North West (U.K). It will be a community based research where I will examine the practices and problems of Islamic banking and finance in this particular area. The financial needs of Muslim population who do not want to compromise with their faith, and what is being offered to them through the banking industry.

1.2 The North West of England and the Muslim Population

The North West of England consists of counties like: Cumbria, Cheshire, Lancashire, Merseyside, and Greater Manchester. The county of Cumbria is situated in the extreme North West of England with a very small fraction of the Muslim population. Cumbria is one of the country's' least ethnically diverse counties, with 96% of the population being indigenous White British, however the larger towns have an ethnic makeup that is closer to national average, and Cumbria's ethnic minority population is increasing twice as fast as England's average. As, our areas of interest are those cities and towns in the North West where there is a concentration of Muslim population. Rationally, apart from the cities and towns having a reasonable proportion of the Muslim population situated in the region of NW, we must also

consider those surrounding and nearby areas where the demographics show a sensible concentration of Muslim population. In the North West region, the Muslim population is scattered in various localities. However, some cities and towns like Manchester (17.91% including Salford, Trafford, Stockport, Tameside councils), Blackburn (19.4%), Bolton (7.07%), Burnley (6.58%), Liverpool (1.35%), Oldham (11.06%), Preston (8.24%), Rochdale (9.37%) have more concentration of Muslim population (ONS, Census, 2001). The pattern of settlement was largely a result of demand for labour force for the expanding British industry in the North West region after the 2nd World War (Peach, Robinson & Smith, 1981).

North West of England



The Muslim Population in the North West region is 3% of the total population (ONS, Census, 2001). Major concentration of the Muslim population is in those cities where the first generation of Muslims, mostly from Pakistan (43% of the total Muslim population) came and settled as a labour force. It also shows the fact that the Muslim Population has some sort of homogeneity. As a matter of fact, after the Second World War, these areas were in severe scarceness and deprivation of labour force to keep the wheel turning in the textile industry. The Muslim labour force came and settled here as Work Vouchers were given to them and the primary cause of their migration was economic factor (Shaw, 1988). Now more than 50

% of the Muslim population was born in the U.K. and second and third generations are living as indigenous British citizens.

The Muslim community in the North West has specific financial needs like: housing finance, personal finance, business finance and other day-to-day banking services. So, which banks are operating Islamic finance and what kind of *Shari'ah* compliant financial products are available in the market? How are these banks approaching the Muslim community to introduce their Islamic banking products and what is the response of the local Muslims? Apart from the banking sector, Islamic or un-Islamic, is there any other arrangement of private finance companies which offer any Islamic finance or serve as interest-free finance intermediaries? What are the expectations of the Muslim community from Islamic banking industry and how do they consider the prevailing Islamic banking sector in terms of their faith and practicing *Shari'ah* in their economic and business transactions? Do they think that the available financial products are really permissible and compatible to *Shari'ah* or they take it only as a change of name?

1.3 Aim of the Research

The aim of my research is to ascertain the potential of Islamic banking and finance in the North West of the U.K. I focused on the North West area where the density of Muslim community constitutes a considerable fraction of the overall Muslim population in the UK. Greater Manchester, Lancashire, Merseyside, Cheshire and many other sub areas are located in this regional part of the country.

1.4 Objectives of the Research

The research thesis has some specific objectives. These are briefly mentioned in this section categorically.

- To examine the existing financial practices of the Muslim community in the area of North West of U.K. The Muslims community like all other British citizens has some financial practices. For example:

1. Current Accounts: they need the current accounts for their day-to-day transactions in which they receive money like wages, pensions, benefits, and they pay utility bills through direct debits etc.

2. Saving Accounts: some of the Muslim community also have, savings accounts where the surplus money is deposited to earn more money in the conventional interest-based banks. The faith-conscious and practising Muslims also need to invest their money where they can earn profit without compromising their faith and getting involved in interest.

3. Personal Financial Services: Muslim community like all other British citizens needs to borrow the money for their personal financial needs. They need money for buying cars, household appliances, mortgages and home finance, consumer and personal loans.

4. Business Finance: the business community always needs money for investment purposes. The Muslim community needs to develop properties, set up new businesses, expand the existing ones, buying the stock for warehouses and shops, buying the extremely expensive medical equipments in the dentist surgeries. These are business loans.

- To examine how these financial needs of the Muslim community can be met by *Shari'ah* compliant financial products. It is a fact that a considerable Muslim population from the North West, like the general Muslim community in the UK, wants to use the *Shari'ah* based financial and banking services without compromising their faith and does not want to get involved into interest-based transactions (Warsame, 2009).
- To ascertain what sorts of *Shari'ah* compliant financial products are available in the UK and particularly in the North West.
- To examine whether the Muslim community is aware of these financial products or not and how the banks and other financial institutions offering these products are raising the awareness to get the maximum market share.
- To establish the fact whether they are using these financial products which are *Shari'ah* compliant or they have some doubts about the authenticity of these products.

1.5 Methodology

The research in the project is community-based. Heron and Reason (1997) described community-based research as a research based on philosophy of participatory paradigm (Heron & Reason, 1997). According to Hills and Mullett (2000) community-based research is a collaboration between community groups and researchers for the purpose of creating new knowledge or understanding about a practical community issue in order to bring about change (Hills & Mullett, 2000). It is relevant to a community and requires community involvement. My research project is related with the Muslim community residing in the North West of England. It is also concerned with their financial needs, attitudes and the available financial and banking products in the market. Therefore the Muslim community and the banks and other finance companies offering *Shari'ah* compliant financial products are our major and focal points of interest. To collect the information from them, I will use surveys, questionnaires, interviews as the research techniques. These techniques are used for primary data where as the published material and secondary data provided by the ONS and other organisations will also provide a reasonable and useful amount of information.

1.6 Brief Description and Structure of the Chapters

This is the first chapter which is an introductory chapter that gives us a brief preview of the entire thesis related with ever fast growing Islamic banking industry in the capital market of the world. It also tells us about the structure of the thesis and how the research methodology will be used to conduct the research.

The second chapter is related with literature review of Islamic retail banking. This section of the thesis will present a comprehensive and thorough study of Islamic banking and finance i.e. what Islamic banking is about and how does it work? It differentiates between interest-free Islamic and interest-based traditional banking systems.

The third chapter is a description of the available options of Islamic banking and finance in the UK. It tells us about the different Islamic and non-Islamic conventional retail banking institutions which offer *Shari'ah* compliant financial products in the UK. All most all the

main stream conventional interest-based banks offer some of the financial products which are compatible with Islamic law and acceptable to the Muslim community.

The fourth chapter is again a description of available options and prevailing financial products. But it is related with non-banking and small scale and private finance companies and ethical organisations which offer *Shari'ah* compliant finance in the market. As in the market some private finance companies are also providing interest-free loans on the basis of Islamic financing principles.

Chapter five is related with research methodology which will be used in conducting the research, collecting and analysing the statistical information for this dissertation. The research techniques like questionnaires, surveys and interviews and research questions and ethical consents of the research will be discussed in this section.

Chapter six throws light on the findings of surveys and questionnaires. An organised and systematic presentation of the results collected from the community about their expectations and views concerning the prevalent Islamic banking and financial system.

Chapter seven presents the findings of the interviews of the banking personnel and their concerns about the prevailing system and the risk management of their funds available for finance.

The final chapter is an analytical summary of the whole thesis with recommendations and concluding remarks based on the findings of the conducted research.

Islamic Banking and Finance: Theory and Practice

2.1 Introduction

This chapter of the dissertation is related with the practices of retail Islamic banking and modes of Islamic finance. A detailed description of various practical and theoretical issues related with Islamic banking and finance have been discussed in the following sections with the intention that the reader has a basic and essential understanding of Islamic ideology working behind the Islamic banking industry. Primarily, the most distinction and prominent feature of Islamic banking, the prohibition of interest requires an essential and concise discussion. As this prohibition is a divine phenomenon and not related with any legislation based on human intellect or worldly designed law, therefore, essentially a brief introduction to Islamic law, known as *Shari'ah* has also been given to identify the importance of the uniqueness of the law and significance of implementation. The *Shari'ah* law indicates why the prohibition of interest is significant and why a faithful and loyal practising Muslim is not allowed to get involved in any kind of interest-based transaction. The original sources of *Shari'ah* law and its various components will also help the reader to identify the importance of the concept of the *Shari'ah* Supervisory Board in contemporary operational framework of Islamic banking and finance. Additionally, the ongoing debate of *Shari'ah* law in the UK has also been discussed from various perspectives to find the possibility of accommodating the *Shari'ah* law in the country as it has a great significance in the discussion of Islamic banking in the UK.

The objective of *Shari'ah* law in prohibiting all kinds of interest and usury and imposing other socio-economic and ethical measures of *Shari'ah* to sustain the achievement of this objective reflects the justification of this prohibition. Extensive literature is available on the issue of prohibition of interest and its various interpretations in the academic world, so the discussion in the chapter is confined to the most relevant point (Saeed, 2001, Mawdudi, 1968, and Qureshi, 1946).

So, briefly speaking our focal point of discussion in this chapter is a detailed analysis and pertinent aspects of various Islamic banking products, modes of financing or financial instruments with special reference to the prevailing system and banking practices of contemporary Islamic banking industry. The chapter is aimed at providing the reader with a

comprehensive and thorough understanding of retail Islamic banking from theoretical and practical perspectives.

2.2 The Foundation of Islamic Banking and Finance

The prevalent Islamic banking is based on the prohibition of interest. The prohibition of interest is not the only distinction but there are some other salient features which constitute the structure of the framework of Islamic banking. The prohibition of interest and other features which are the essentials of Islamic banking are, in fact, the rules and injunctions of Islamic *Shari'ah* and they constitute a wider system and a comprehensive way of life based on the Islamic ideology. Undoubtedly, the concept of Islamic banking is very recent in the sense that only four decades ago this concept was realised in practical terms and before that no such interest free banking system was prevalent in the capital markets of the world, but interestingly the concept of prohibition of interest is not a new phenomenon as it goes back to many centuries in the history of Islamic world

It is a common perception of the people that Islamic banking is interest-free banking. But as a matter of fact, the concept of interest-free banking and the phenomenon of a banking system based on the prohibition of interest are not only distinct but entirely different from each other from the very basic foundations. An interest free-banking system cannot be necessarily an Islamic banking system if it is not based on the principle of prohibition of interest. The reason why somebody has to keep this fundamental difference in mind while discussing the issue of Islamic banking is that it is essentially to be noted that all the interest-free banks are not Islamic provided the condition if they are not based on the unique injunction of prohibition of interest and other Islamic principles. Because there is a possibility of interest-free banking in the traditional system like in the past the Bank of Japan, the phenomenon of prohibition of interest is also a unique idea from another perspective, as in the sense that before the emergence of these Islamic banks, there were some traditional banks operating in the capital markets of the world which were interest-free banks like in Japan. The Bank of Japan (central bank) was operating at 0% rate of interest which in fact means 'interest-free' banking but this type of banking had never been regarded as Islamic banking because it was not based on the principle of prohibition of interest. As the commercial banks were charging some nominal interest rate even despite the fact that they got the loans from central bank without any interest (Oda & Ueda, 2007). More recently, due to worldwide financial crisis, the monetary authorities and central banks around the world, for instance, in the USA and UK, are

consistently decreasing central bank's rate of interest or Libor (.25 % in USA and .5 % in UK May 2009) and it is trending to zero but as the commercial banks are charging a relatively higher market rate of interest so as this banking system is not based on the Law of *Shari'ah* even if the rate of interest is trending towards zero it is not called Islamic banking. So, any banking system based on zero percent rate of interest for some reason of financial crisis or deflation or stagnation is not necessarily Islamic banking as long as it is not based not only on the prohibition of interest but also other set of rules deduced from the injunctions of Islamic *Shari'ah*

The prohibition of interest is only one aspect, there are many other relevant issues which are essentially related with the phenomenon of Islamic banking and these have to be followed and addressed in an appropriate way for a banking system to be Islamic. The *Shari'ah* compatibility can only be ensured if the law of *Shari'ah* in general and verdicts concerning *Halal* and *Haram* (lawful and unlawful), the moral values and ethical norms, the obligation of *Zakah* and such other issues in particular are implemented. In fact, it is the Islamic ideology which is based on fundamental principles of *Tawhid* (Oneness of the Creator), revealed knowledge through prophethood and a strong conviction to return to the Creator for the Day of Judgement (Iqbal & Mirakhor, 2007).

Although, the practice of Islamic banking is a new phenomenon, but conceptually the idea goes back more than 14 centuries ago when interest free operational financial behaviour had been witnessed throughout the history of Islamic economic system. Dr N. Siddiqi (2001) has mentioned the quote of Prof. S. D. Goitein from his monumental work, 'A Mediterranean Society' saying that partnership and profit-sharing, and not interest-based borrowing and lending, formed the basis of commerce and industry in the Mediterranean region in the twelfth and thirteenth centuries. The Islamic banking is an integral part of Islamic economic thought which is one of the oldest economic literatures available in the academic history. Some writers in economic literature like J. Presley and J. Sessions (1994) have described the fact that Islamic economics is not a new paradigm (Presley & Session, 1994).

The financial practices and monetary arrangements in the field of business, trade and investment based on this thought were prevalent throughout the Islamic history, for instance, deposits in current accounts and the use of cheques were well known in early history of Islam in Baghdad and Damascus (Kahf, 1992). But the fact remains that banking practices based on *Shari'ah* emerged in the last quarter of twentieth century as such they are under operation in

the present financial system of the world. Most of the writers who wrote extensively on the subject of Islamic banking, they unanimously agreed on the point that the first Islamic saving bank of the world started operating Islamic finances in a small village of Egypt called Myt Ghamr in mid sixties (1963) (Kahf, 1992). Later in the seventies, IDB and Dubai Islamic Bank started and then the number of Islamic banks is increasing until today, at least more than two hundred banks are operating based on the principles of *Shari'ah* (Saeed, 2001).

Theoretically, the phenomenon of Islamic finance and its financial operational behaviour in the past several centuries had been witnessed throughout the history of the Islamic world and an economic order or system prevailed based on the knowledge of revelation and divine doctrines or more specifically Islamic ideology. But in the contemporary economic literature, particularly in the literary circles of western economic thought, this phenomenon just came under discussion only a few decades ago.

The financial arrangements in the past did not have so much accuracy and precision in terms of information and organisation as the properly managed and organised system of financial intermediaries in the modern economic world today. Therefore, for a long time, the economists and financial experts of the present capitalistic system where banking and finance has become a great industry were not willing to accept this argument, that some banking system can be developed and work successfully on practical basis without the involvement of interest (Asutay, 2010).

In early seventies the concept of interest free banking was not more than a dream of Muslim people around the world who were trying to revive their Islamic ideology and implement the divine principles of Islamic *Shari'ah* into their Islamic banking and financial services. It was the ideology and faith of Muslims and revival movements in the Muslim world which lead to develop a banking system compatible with their faith and ethics and morality where the whole system is at war against the modern banking credit or rate of interest.

2.2.1 Social Justice: a significant objective

Social justice is at the core of all the related issues of Islamic economic system. It is the most significant objective to be achieved by implementing all the injunctions of Islamic law where the doctrine of prohibition of interest is only one of them. There are equally important other issues like *Zakah*, *Gharar*, *Maysar*, *Halal* and *Haram* etc, and collectively they constitute the Islamic economic order and Islamic banking and finance is only a practical instrument and a particle of this whole mechanism. Without having a basic understanding of this concept, the

discussion will not paint the true picture of Islamic banking and why it is based on the prohibition of interest

Islam is a comprehensive and inclusive way of life, or what it is called a complete code of life. That is the reason why in Islam we find various kinds of teachings and numerous injunctions which are related with day to day life of every human being who declares to be a Muslim. Emphatically, it has been prescribed in Islamic teachings to follow the commandments, recommendations, prohibitions and sanctions of Islamic *Shari'ah* in all the spheres of life of every Muslim whether it is individual or social life. Islam does not differentiate between physical needs of the body and spiritual needs of humanity and also between an individual and a society in terms of social justice and responsibilities (Chapra, 2009). From an Islamic perspective basic needs of life and material necessities are as much important as the spiritual needs of human beings and vice versa. Similarly, the welfare of one single soul and the betterment of whole society are both equally significant and essential in a socio-economic and political environment in Islamic system. The division of private life and social life and also the difference between the state and places of worship have no perception in the principles of Islamic *Shari'ah*. The same set of rulings is applicable to the individual in his public and private life

For this comprehensive ideology and practical inclusiveness Islam has laid great emphasis on some basic principles which are related to an individual, a society, physical body and spirit of human beings. These basic and fundamental principles provide the foundations for a complete social justice in a society where all human beings are treated equally, fairly and justly, and not only their spiritual needs are taken into account like in most of the religions, but the substantial material needs of all human beings related with economy and politics are also considered with equal level of significance in a sensible and practical way. These foundations have been mentioned by Sayyid Qutab (1953) as:

- Absolute freedom of conscience
- The complete human equality (not economic equality)
- Firm mutual responsibility of society.

Significantly, it must be mentioned to clarify that the concept of human equality in Islam means equal opportunities for economic activities. It does not imply in any regard that Islam denies the right of private ownership, the denial of private ownership is contradictory to the

very fundamentals of Islam and the phenomenon of Socialism or communism does not have any room in the Islamic economic system. The right of private ownership is recognised by many faiths and laws in the world, but Islam perhaps is the only religion which not only accepts the legitimacy of private ownership like other faiths do, but additionally it also provides an unambiguous justification of some just and fair level of income disparity and inequality in distribution of wealth in the divine verdicts of the Qura'n which states that it is indispensable to accommodate a certain level of inequality for running the affairs of economic activity in any society (Noble Qura'n 43:32). The human equality means assurance of equal opportunity for everyone in economic activities and provision of subsistence level of human needs for each and every member of the society regardless of faith or race discriminations. The concept of social justice in Islam is different from communism and socialism. The Islamic view is that inequitable distribution of income and concentration of wealth are detrimental to the development of human personality, economic prosperity and sustained economic development in any society. It also implies that there is not any kind of injustice: criminal or economic, which is economic exploitation of relatively disadvantaged sects of the society. The establishment of such a justice (Noble Qura'n 57:25) was aimed at by sending the messengers and revealing the books (Chapra, 2000, Qutub, 1953, Mawdudi, 1963, also, Mawdudi, 1959).

These foundations mentioned above give an Islamic perspective to ensure the objectives of Islamic banking and finance. These objectives of Islamic banking and finance have been summarised by Lewis and Algaoud (2001) as following:

- The abolition of interest from all financial transactions and the reform of all banking activities compatible with Islamic principles;
- The achievement of an equitable distribution of income and wealth;
- The promotion of economic development and greater utilisation of economic resources to optimal level.

For the achievement of these goals, Islam has prescribed certain rulings and verdicts and asked the followers of Islam to implement these teachings of *Shari'ah*. According to the doctrines of Islamic jurisprudence, the implementation of these rulings will help and ensure the establishment of a fair and just society all over the world. The establishment of such a **fair and just society** is one of the significant and the most desirable objective of the Islamic

Shari'ah. In the Noble Qura'n it has been mentioned manifestly: 'We sent foretime our apostles with Clear Signs and sent down with them the Book and the Balance (of Right and Wrong), that men may stand forth in justice' (Noble Qura'n 57:25). Therefore, apart from prohibition of interest, we find that Allah the Exalted has also prohibited **gambling** in Qura'n, 'O ye who believe! Intoxicants and gambling, (dedication of) stones, and (divination by) arrows, are an abomination,- of Satan's handiwork: eschew such Noble Qura'n (abomination), that ye may prosper(Noble Qura'n 5:90). There is also clear commandment about **fair and just mutual trade** and financial transaction and it is one of the basic legal requirements in Islamic law that all the transactions have to be based on fairness and justice; 'O ye who believe! Eat not up your property among yourselves in vanities: But let there be amongst you Traffic and trade by mutual good-will: Nor kill (or destroy) yourselves: for verily God hath been to you Most Merciful' (Noble Qura'n 5:29). The Noble Qura'n has also explained the way how to lend and borrow money as a **loan or debt** and write it down for the time period so there does not remain any ambiguity and uncertainty which could create problems in the future, ' O ye who believe! When ye deal with each other, in transactions involving future obligations in a fixed period of time reduce them to writing (Noble Qura'n 2:282).

The fundamental principle which covers all the monetary, trade and financial transactions has been described in the verse in which Allah the Almighty has mentioned: Deal not unjustly, and ye shall not be dealt with unjustly (Noble Qura'n 2:279). The establishment of justice in the society in all the spheres of life has been mentioned along with piety and righteousness which is the most recommended and desirable character of a believer. Therefore, as Fuad and Haque (1996) mentioned that the Qura'n placed this establishment of justice near to piety (Fuad & Haque, 1996). The justice is not only for fellow Muslims, in terms of the Qura'n who are like brothers (Noble Qura'n 49:10), but it is for all the human beings even those who are severe opponents and sheer enemies of Islam (Noble Qura'n 5:2; 5:8).

The Qura'nic verses being the most fundamental source of the knowledge of *Shari'ah* have condemned all kind of wrongful transactions. Giving bribe to the rulers and taking property wrongfully from the people has also been prohibited. Economic activity, trade transaction and financial dealing i.e. everything has to be discussed in the light of *Shari'ah*.

Islamic banking is an integral part of this unique philosophy and distinctive ideology. As mentioned by a contemporary economist, it consists of the interactions of fellow human

beings to develop human comprehension, social receptivity and institutionalisation of *Shari'ah* in the conduct of life (Choudhry, 1998). Moral dimension in economic behaviour is an important implication of Islamic economic thought. Open market operations and free interaction of the market forces have not been denied by this thought, but distinctively, the religious doctrines introduce the moral dimensions in economic activity and the state's intervention to execute the law of *Shari'ah* for ensuring the public welfare is a salient feature of this ideology. Islam is not alone to promote moral dimension for smooth functioning of economic system and assurance of public welfare, but there are vigorous voices in favour of ethics and morality by contemporary economists in the west. Keynes in *General Theory*, for instance, has explained that market forces and free enterprise economy cannot work smoothly and fairly without any moral control by the state. The fiscal policy arrangement by the state is essential to ensure a smooth functioning of the system and a greater determination and equitable distribution of income (Kurihara, 1959). The economic literature of economic development and welfare economics in the past few years has taken and discussed this issue of fair and equitable distribution of wealth more emphatically and vigorously (Sen, 1971).

2.2.2 The Islamic Shari'ah: a divine law

Literally, the word '*Shari'ah*' is a derivative of the Arabic three-lettered word '*Sha'ra'aa*' which means to make a way, Another derivative '*Sha'rei*' means the way or the road. In Islamic terminology, the word '*Sha'ra'aa*' means to make a law and the derivative '*Shari'ah*' stands for the divine law made by Allah the Almighty. According to Aghnides (1883) *Shari'ah* is defined by the scholars as "that which would not be known had there not been a divine revelation" (Aghnides, N.P. Reprinted 1916, p.23). So all the laws based on revelation even mentioned in previous scriptures provided the condition that *Quranic* revelation testifies the validity of these laws is called *Shari'ah*.

The perception of Muslims about *Shari'ah* does not mean that it is only a law of Muslims, it has a wider concept and it includes any law which was revealed in any divine book by Almighty Allah like Torah, Bible or any other Holy Scripture. In the Qura'n there is mention of previous scriptures like Gospel and Torah. As far as the Torah is concerned, Allah the Almighty said; 'It was We who revealed (Torah) the law (to Moses): therein was guidance and light (Noble Qura'n 5:44). Similarly, it has been mentioned in Qura'n that Prophet Jesus was given the scripture which testified the scripture of Torah. Allah said: And in their

footsteps We sent Jesus the son of Mary, confirming the Law that had come before him: We sent him the Gospel: therein was guidance and light, and confirmation of the Law that had come before him: a guidance and an admonition to those who fear God (Noble Qura'n 5:46). And also; 'and to David We gave the Psalms' (Noble Qura'n 4:163).

But as long as the scripture of *Qura'n* is concerned, being the last scripture and the final revelation, Allah the Most High said that it was preserved by Him. The verse states: 'We have, without doubt, sent down the Message; and We will assuredly guard it (from corruption).' (Noble Qura'n 15:9). There is another verse that states: 'No falsehood can approach it from before or behind it: It is sent down by One Full of Wisdom, Worthy of all Praise' (Noble Qura'n 41:42). So, technically and broadly speaking *Shari'ah* has a wider concept of a divine law which is not confined only to Muslims and their book but all the people of scripture including Jews and Christians and their books like the Torah and Bible also have their shared common values and recognition in this divine law. In other words it is the law of those people of the book who follow a divine faith or any monotheistic religion.

2.2.3 Sources of *Shari'ah*

The sources of *Shariah* comprise Qura'n, *Sunnah*, *Ijmaa'* and *Qiyaa's*. The first two sources are called primary sources of Islamic law and the later two *Ijma* (Consensus) and *Qiyas* (Analogy) are called secondary and derived from sources of Islamic law (El-Gamal, 2006, also Vogel & Hayes, 1998).

The authority of *Qiyaa's*, Qura'n and *Sunnah* is attributed to the famous *Hadith* that reports the conversation of the Holy Prophet (PBUH) with one of his companions Mua'dh Ibn Jabl, whom he appointed as governor of Yemen. The Messenger of Allah asked Mua'dh, "How will you judge when the occasion of deciding a case arises"? He replied, "I shall judge in accordance with Allah's Book". The Prophet (pbuh) asked, "What will you do if you do not find the guidance in Allah's Book"? Mua'dh said, "I will do it in accordance to the *Sunnah* of the Apostle of Allah". The Messenger of Allah (PBUH) asked Mua'dh, "What will you do if you do not find the guidance in the *Sunnah* of Allah's Apostle (PBUH)"? He replied, "I will do my best to form an opinion and spare no pains". The Messenger of Allah (PBUH) then patted him on the breast and said, "Praise be to Allah Who helped the messenger of the Apostle of Allah to find a thing which pleases the Apostle of Allah". (*Sunan Abi Dawoud*, Ch.1348:3585).

The Qura'n is the most fundamental and significant source of knowledge in Islamic *Shari'ah*. Muslims believe that it was revealed as the last book to the last Messenger of Allah within 23 years (13 in Makkah and 10 in Madina) divided into 114 chapters. It is known as the living miracle of the Holy Prophet Mohammad (pbuh). It contains a living challenge to all the humanity that if you are suspicious in the divinity and authenticity of the *Qura'n* as being a Word of God and divine book, then produce one book, ten chapters, one chapter or only one verse like this *Qura'n* (Noble Qura'n 17:88; 11:13; 2:23; 52:34).

During the life of Prophet Mohammad (pbuh) it was scattered and not written in the form of a book. Abu Bakr, the successor of the Prophet and leader of Muslims after the Prophet's death asked Zayd Ibn Thabit to write all the scattered passages in the form of a book. Then Uthman, the third caliph made official copies and distributed them in other parts of the Islamic empire (Vogel & Hayes, 1998 also Aghnides, 1883).

The Sunnah is the conduct of the Holy Prophet Mohammad (pbuh). He was not only the recipient of *Qura'n*, who received this revelation and conveyed this to the mankind, but he also interpreted and completed it in explanation and implementation. This role of the Prophet (pbuh) has been mentioned in the *Qura'n* in various chapters. For instance, Allah the Almighty says to the Prophet: 'We have sent down to thee the Book in truth, that thou mightiest judge between men, as guided by God: so be not (used) as an advocate by those who betray their trust' (Noble Qura'n 4:105). Also, He says to the Prophet: '(We sent them) with Clear Signs and Books of dark prophecies; and We have sent down unto thee (also) the Message; that thou mayest explain clearly to men what is sent for them, and that they may give thought' (Noble Qura'n 16:44). *Sunnah* comprises of all the sayings, traditions and approbation of the Prophet. Therefore it is called *Sunnah Qawliyyah* (words), *Sunnah Filiyyah* (acts) and *Sunnah Taqririyah* (approbation and participation) (Vogel & Hayes, 1998, also Lewis & Algoud, 2001).

The six major books are known as the *Sihah Sittah* i.e the most authentic books on *Aha'dith*; *Sahih AlBukahri*, *Sahih Muslim*, *Sunan Abi Dawood*, *Sunan An Nisai*, *Sunan Ibn Maja*, *Jame At Termidhi*. Of course there are some other books, apart from these, which contain the collection of examples and precedents of the life of Prophet (pbuh) and there are also authentic traditions in them. But these books have gained a great deal of popularity based on the authenticity of the contents in a vast majority of Muslims.

Ijma is the third source of Islamic *Shari'ah*. It means consensus of the *Ummah*, the Muslim community, the collective judgments of learned Muslim scholars. More precisely it is defined as, 'a unanimity of opinion concerning a divine prescription' (Aghnides, 1883, p.60). The justification of *Ijma* and its authenticity is based on some profound evidence in the Qura'n and *Sunnah*. In the Qura'n the verse states that 'It is thus that we have made of you a nation of the right mean' (Noble Qura'n 2:137) and also it states that '...those who turn away from the Prophet and who do not follow the way of the believers' (Noble Qura'n 4:115). The way of believers is the unanimity and consensus of the Muslim community. In the *Sunnah*, we find the saying of the Prophet that 'My people (*umamah*) shall never agree on an error' (Al-Shafi' in Ar-Risalah quoted by Alghindes, 1883).

So, in general the consensus of Muslim scholars and jurists on modern national and international issues constitutes the legitimacy of *Ijma*.

Qiyas is the fourth and last source of Islamic *Shari'ah*. It means analogy and it is used to find the legal position of a matter under the circumstances when there is not any clear 'Nass' in Quran and *Sunnah* and the scholars doing *Ijtihad* do their best to deduce the law from the existing sources of *Shari'ah* i.e. Quran, *Sunnah*, *Ijma* and *Qiyas* (Lewis and Algoud, 2001). The term *Ijtihad* is referred to scholars' individual or collective struggle to find out the best interpretation of the *Shari'ah* law using all the sources of *Shari'ah* in newly arising matters, as it is in the *Hadith* of *Muadh* mentioned on page 31. The Muslim scholars and jurists use their reasoning and judgments to determine a course of action for a particular issue keeping in mind the fundamental principles of *Shariah* from the Quran and *Sunnah*. *Qiyas* is defined by the scholars as 'to extend the [*Shari'ah*] from the original [*Asl*] case over to the subsidiary [*Fra*] by reason of an 'effective' cause [*Illah*] which is common to both cases and cannot be understood from the expression alone' (Aghindes, 1883, p.74). For instance, if a certain act has been prohibited in the *Qura'n* or *Sunnah*, then other acts common with the act in regard to the effective cause for which the prohibition has been decreed are likewise prohibited.

Here it is interesting and also significant to note that the four principal Sunni schools of thought or Jurisprudence; the *Hanafi*, *Maliki*, *Shafi'i* and *Hanbali* schools all accept the validity of the following four resources for the *Shari'ah*: the Qur'an or the Holy Book; the *Sunnah* or the tradition of the Prophet; *Ijma'* or consensus; and *Qiyas* or analogy. The *Shi'ites* like *Sunnies*, uphold the first three sources but they replace *Qiyas* or analogy with *Aql* or reason (Nomani & Rahnema, 1994).

Undoubtedly, the fundamental resources of *Shari'ah* are very significant in determining the law of *Shari'ah*, but secondary sources of *Shari'ah* like *Ijma* and *Qiyas* or *Ijtihad* also have great significance, especially in modern Islamic banking and finance. Obviously, these tools are used to find the solutions of those problems for which no clear and explicit mention is found either in the Qura'n or *Sunnah*. As mentioned by Aghnides (1883), *Ijma* and *Qiyas* and/or *Ijtihad* 'are used in order to provide for the solution of cases which were left unsettled in the two revealed sources of the Koran and the *Sunna*' (Aghnides, 1883, p.66). The modern Islamic banking and finance rely upon these sources of knowledge. Islamic banking and financial products are new products, not necessarily found in the primary sources of *Shari'ah* and their compliance with *Shari'ah* has to be confirmed in the sources of *Ijma* and *Qiyas* through *Ijthad*.

2.2.4 Comparative Analysis of *Shari'ah* and English Law

The coexistence of English Law and recognition of some aspects of *Shari'ah* Law in the UK is a relevant part of our discussion. Because it is useful to explore how two laws in terms of their features and characteristic are convergent or divergent from each other. The reason why we need to discuss this issue is that while elaborating the practices of Islamic banking and finance in the UK, we need to investigate the fact that to what extent the coexistence of these two laws is possible. In other words, Islamic banking is based on *Shari'ah* Law and if some aspects of this law are not recognised then how this Islamic banking will progress in the UK. Therefore we need to explore the similarities and disparities between these two laws; how far *Shari'ah* law and English common law are similar and how they are different from each other. If both the laws are identical in most of the relevant issues then there is not any difficulty to implement the law of *Shari'ah* in operating Islamic banking system in the UK. But if both laws are contradictory to each other and there exists a conflict between these two laws, and the English legal system does not accept the legality of *Shari'ah* law, then how would the Islamic banking be possible in the Western societies in general, and in the UK in particular and how can a synthesis be achieved as a middle way for the sake of cohesion and integration of a multicultural society without compromising the supremacy of British judicial system and to avoid the so called 'clash of civilizations' pointed out by some extreme and fanatic ideas of political elements (Edge,2008; also, Huntington, 1993).

The detailed analysis of the issue requires looking into the origins and the fundamentals, the differences and similarities, the social values and norms, the convergence and divergence, the religious and judicial aspects of these two laws. But since our discussion is mainly related

with the fact how *Shari'ah* law can be recognised and accommodated in the British legal system so that the Islamic banking can grow and flourish based on the principles of *Shari'ah* without challenging the supremacy and higher authority of English law in terms of legality, this discussion is confined only to the relevant aspects of the analysis.

It is interesting to note that these both laws are in force to a larger extent or smaller in different parts of the world. The English Common Law is in force in the UK, the USA, Canada, Australia, and partially in those countries of Commonwealth in which once there was some sort of British rule in the last two centuries. Whereas, *Shari'ah* law was implemented in a complete stance throughout the Islamic state in the last thirteen centuries, in different eras of Umayyad, Abbasid, or Ottoman empires, but after the collapse of the Ottoman empire in the first quarter of the twentieth century it was not fully implemented as a law of the land in many Muslim countries. Even under the rule of foreign colonial masters, the Muslim community was given the opportunity to be governed according to their faith in the form of Muslim Personal Law. Marital disputes and inheritance distribution and other relating issues were mainly under the jurisdiction of Muslim Personal Law. However, as these countries achieved freedom from foreign imperialism and movements of revivalism and Islamic fundamentalism gained some strength in the Muslim World, many countries started introducing some parts of Islamic law responding a massive demand of implementation of *Shari'ah* as a law of the land. Now, the *Shari'ah* law has been implemented to various extents in the Muslim world, in some countries like Saudi Arabia, Iran and Sudan it is the law of the land, in other countries like Pakistan, Malaysia, Indonesia, Egypt, Bahrain, Brunei, Jordan, UAE and many others, along with secular law or/and English common law, the *Shari'ah* law has gained a parallel position in the legal framework and the judiciary has accommodated and recognised *Shari'ah* courts as well (Vogel & Hayes, 1998).

The issue of recognition of *Shari'ah* law and how it can be accommodated in the prevailing British legal system to gain a higher level of social cohesion and integrity in the society has also been discussed in 2008 in the British electronic and printed media when two prominent figures and dignitaries and heads of two pillars of the state, Archbishop of Canterbury Dr Rowan William (8th Feb, 2008) and Lord Chief Justice Lord Phillips (4th July, 2008) gave statements mentioning the importance of *Shari'ah* law and its accommodation in the British legal system. Since then the discussion has become a very controversial debate and for a while it has been regarded as a burning issue in the media (William, 2008 and Philips, 2008).

Contrary to the view of these two highly skilled and extremely qualified persons, there is a second opinion about *Shari'ah* law and its implication in the UK which is entirely opposite to the first opinion and it also has some support of various people like academics, politicians and people related with the legal profession like lawyers and jurists who see a lot of difference between these two laws and strongly they hold the opposite view that not only the supremacy of British legal system will be affected but it could be a disaster and a complete failure of the British legal system (Edge, 2008). To them it is unacceptable to have any recognition of such a system *Shari'ah* law in the UK as it will undermine the authority of British legal system.

Undoubtedly, the fact remains that there are some issues where both laws look similar and even sometimes identical, but at the same time there are issues where there is a huge difference between them and no synthesis can ever be made for reconciliation of the legal issue. For example, the origin of the law of *Shari'ah* is revelation and the feature of divinity as it has been stated in the section before is a unique and distinctive characteristic of *Shari'ah* law. But the formation of *Shari'ah* law and how it was constituted by commonly accepted norms, values, customs and traditions of the tribes and clans in the society of Arabia provided the fact that these were not contradictory to the basic principles and fundamental tenets of the revelation, fundamental source of *Shari'a* (Coulson, 1964). The participation of Muslim community in the process of formation of law is undeniable. Initially, it was not in a written format, but of course, gradually and eventually it was written in the form of books.

Similarly, the English law which is also known as English common law, is regarded as a law of community by the community and for the community. The participation of the community in the formation of law is very similar with a slight difference that in the former any consensus of the community could not be contradictory to the revelation as the Messenger of Allah (pbuh) said that: 'My community will never agree on error'. English law is judges' law as it is found in the judgments of the courts and juries and it is not a written law. Islamic law, comparatively, can be called law of jurists and scholars as it is found in the teachings of authentic and authoritative jurists known as '*Ulama*' but obviously, *Qura'n* and *Sunnah* being the basic and the most fundamental source (Badr, 1978).

English common law is known as secular law and not based on any religious grounds whereas the *Shari'a* law is regarded as religious law entirely based on religious foundations. But if we analyse this argument in detail then we come across the fact that English law has

also some aspects of religion and faith whereas, *Shari'a* law has also some characteristics of secularism. For example the Act of Settlement of 1701 decrees that the monarch cannot be a Roman Catholic, and neither the Monarch nor the heir to the throne can marry a Roman Catholic, it is a religious clause in the English law. Similarly, in spite of the state secularity which is well established and very famous in most of the European countries, still there are some countries like Denmark, Great Britain and Norway, where the most important state authorities have to confess a certain religion (Davis, 2000). Additionally, the family law and the issues relating with divorce and marriage, they take place in accordance to the Christian faith.

On the other hand, Islamic law or *Shari'a* also has some sort of secularism. Prof. John Makdisi (1999), as renowned one of the famous contemporary western legal scholars based in the Harvard law school who wrote extensively on the comparative study of English law and Islamic law, interpreted Islamic law as a secular law in the sense that it gives justice to everyone regardless of any faith and gender discrimination; “The manner in which an act was qualified as morally good or bad in the spiritual domain of Islamic religion was quite different from the manner in which that same act was qualified as legally valid or invalid in the temporal domain of Islamic law. Islamic law was secular, not canonical... Thus, it was a system focused on ensuring that an individual received justice, not that one be a good person” (Makdisi, 1999, p.1704).

The separation between ‘Church and State’ is one of the basic and most significant issues where both laws have a huge difference and they depart from each other. The Islamic law does not differentiate between institutions, as of places of worship and state and hence there is not any separation between these two institutions, whereas the English common law due to its secular nature does not support any particular faith and religion in general terms and treats both institutions separately whether this law is practiced in the UK, USA, Canada, Australia or anywhere else in other Western countries. The legal authorities in these countries negate any notion of mixing the law and religion together in a practical environment of social and political life (Solomon & Wakeling, 2009).

On the other hand, Islamic law not only gives moral injunctions and ethical teachings about the five basic indispensables more commonly known as the ‘objectives of *Shari'a* law’ (life, religion, honour, posterity, property) but it also has established a deterrent of punishments and criminal code to protect these fundamental rights (Thomson, 2005). It is quite difficult

for the westerners that are not familiar with Islamic law to grasp this perception of religious nature of the law from an Islamic perspective. The major misunderstanding about Islamic law in the West occurs partly because of wrongful presentation in the media and also some unawareness of the issue of *Shari'a* (Thomson, 2005).

Among the commonalities, the English common law and *Shari'a* law also have some similarities on certain issues of 'civil law' and 'criminal law'. For instance, under English common law the damage has to be paid to the victim by the offender. In *Shari'a* law the concept of '*Diya*' which is rightly called compensation is very similar to pay for the damage and/or loss of the victim. The *Shari'a* law has combined the 'criminal law' and the 'civil law' together in the way as there is a concept of '*Qesas*' or what is called retaliation law in Islamic legal framework. Here an interesting point to be noted is that the retaliation and compensation have to be carried out through the governmental and judicial authority and not on an individual basis.

There is some significant difference on the issues related with family law, inheritance law and witness law between *Shari'a* law and English common law. For example, *Shari'ah* law allows a Muslim to marry four wives at a time provided the condition that justice both in financial and physical terms has to be maintained in the best possible way, and this permission of polygamy has been granted in *Qura'n* (Noble *Qura'n* 4:3). Under English Common Law polygamy is not permitted. According to Islamic law a divorcee woman can marry another man after three months of divorce coming into effect if she is not an expecting mother; in that case she has to wait until the birth of the child. Under English common law both partners have to wait for two years.

In the case of inheritance law, the *Shari'ah* has assigned equitable shares based on *Qura'nic* revelations where wives, children; males and females, brothers and sisters, parents all of them have been given some due shares in the inheritance after the debts have been paid off. The details of these shares have been mentioned specifically in the *Qura'n* (Noble *Qura'n* 4:11-12; 4: 176). Under English common law, only the partner wife or husband can get the major share in the property, and if s/he marries after the divorce or death of the partner then the children may not get anything from the property of their parent (Solomon & Wakeling, 2009).

Under *Shari'a* law somebody can write a will to give maximum of one third of all the property and the remaining has to be distributed accordingly as mentioned in *Qura'n*. But in

English law the will can be written without any restriction. For this reason, there is permission to write the will in English law and most of the Muslims write the 'Will' stating that their property should be distributed according to Islamic *Shari'ah* (Islamic law of inheritance) and for this purpose 'templates' are commonly available with the solicitors for Islamic Will, then it is implemented through the English judiciary courts without any hindrance. So, in fact there are issues where both laws have considerable agreement and a commonality can be observed clearly but on certain other issues there is a vast difference between these two laws. Now genuinely, the question arises that to what extent can this law be accommodated for the prevalence of Islamic banking and finance in the UK?

2.2.5 *Shari'ah* Law in the UK and its Implication

The legality of *Shari'ah* law in the UK is very recent and a hot discussion in the circles of political, theological and legal professionals of the country. The debate started when a high official of the church gave a statement about the law of *Shari'ah* and its role in the UK. According Dr. R. Williams (2008), for the construction of tolerant and peaceful society, community cohesion and social integration are indispensable and eventually for the attainment of these objectives the recognition of Islamic law to some extent is inevitable. After his statement there started a furious debate on the Islamic *Shari'ah* and its implication in the UK. Some people responded in the way that he was promoting *Shari'ah* in the country. But he said his statement was not taken contextually. He also denied the allegations that he was promoting or supporting any move of a parallel legal system of *Shari'ah* in the British society. The thoughtful remarks of Dr Rowan William regarding *Shari'ah* law suggested that as the well established community and religious legal system of Beth Din institution had been working very successfully in Britain for many decades and the local *Shari'ah* councils were also doing some useful job in terms of matrimonial and civil issues in the Muslim community then why were these arrangements not recognised by the British legal system.

According to Dr Rowan William (2008) it "seems inevitable" that elements of Islamic law, such as divorce proceedings, would be incorporated into British law. He added that the UK had to "face up to the fact" that some citizens do not relate to the British legal system, and argued that officially sanctioning *Shari'ah* law would improve community relations.

He clearly mentioned that "Nobody in their right mind would want to see in this country the kind of inhumanity that has sometimes been associated with the practice of the law in some Islamic states," while he was talking to the BBC's World at One programme. He also said

“But there are ways of looking at marital disputes, for example, which provide an alternative to the divorce courts as we understand them.” (William, 2008).

His critics gave him a tough time and some of the people demanded that he quit from the position and so much so that some extreme people threatened him to be killed for his statement. It is a fact that because of these threats police force had to provide him protection from any potential harm from some extreme groups of Christian faith and various denominations and political groups of extreme thoughts. It also indicates that the British society where freedom of speech and fundamental rights of civil liberties are regarded as the beauty of democratic system and a distinct feature of the political society can go to such an extent where the life of a renowned religious scholar and highly designated official faces threats of death.

Following the wave of Dr William’s statement another development took place in this regard by the statement of Chief Justice Lord Phillips (July, 2008) who also said that there was no harm if there was any contractual agreement between two parties to be judged by any law. Lord Chief Justice is the head of the judiciary of England and Wales and he is also President of the Courts of England and Wales. Among many other significant responsibilities and jurisdictions, it is one of the key roles of head of the judiciary to represent the views of the judiciary to the Parliament and the Government.

The Lord Chief Justice has virtually said that the Muslims living in Britain should be able to live under *Shari’ah* law. In a speech at the East London Muslim Centre in east London, Lord Phillips said it was “not very radical” for Dr Williams to argue that *Shari’ah* law can be used to help governing issues like family disputes and the sale of financial products. He added, “It is possible in this country for those who are entering into a contractual agreement to agree that the agreement shall be governed by law other than English law.” He said he was willing to see *Shari’ah* law operate in the country, so long as it did not conflict with the laws of England and Wales, or lead to the imposition of severe physical punishments. He also pointed out the fact that *Shari’ah* law suffered from “widespread misunderstanding” in Britain (Phillips, 2008).

These two statements by the head of clergy and the head of judiciary have a lot of significance in accommodating the *Shari’ah* law in the British legal system. After all we always remember the fact that Great Britain is a democratic country and multicultural society, as it is known that Britain is mother of democracy, then the people must be given a

democratic right to choose any law under which they want to be governed voluntarily. This is the opinion of Lord Chief Justice as it was stated earlier. It is not a matter of ‘parallel jurisdiction’ as Dr William has been misunderstood and his statement was taken out of context, it is a matter of ‘multiple jurisdiction’ where different laws have different jurisdictions for various communities according to their personal and religious legal requirements. Ottoman Empire in the past and Israel at the present have these examples. Bernard S. Jackson (2008) has pointed out that ‘the legal history is replete with systems of ‘multiple jurisdictions’ and he mentioned the factual evidence that in Israel there were different courts for Jews, Muslims and Christians (Jackson, 2008). Even in the UK, for the Jewish Community there prevails a ‘Bath Din’ legal system which has been serving the community for more than 70 years.

The law of *Shari’ah* in the UK does not mean and nor has it been demanded by the Muslim community as such a *Shari’ah* criminal penal code or ‘severe physical punishments’ quoted by Lord Philips (2008) like slashing the people for drinking alcohol, cutting off the hands for stealing, stoning to death for adultery and chopping the head off for murder. The implication of the *Shari’ah* law is confined only to the recognition of some parts of *Shari’ah* law and their accommodation in the British legal system like issues related to financial transactions and matrimonial concerns and to some extent the matters of inheritance distribution. The demand of Muslim community leaders and supporters of *Shari’ah* law like Dr William and Lord Philips is only ‘Muslim Personal Law’ in the UK which is not something new as it had been practised even by the British Empire in those colonies like India and some parts of Africa where the inhabitants and subjects were Muslims (The Islamic *Shari’ah* Council London, 2004). The most significant feature of Islamic law and English law and the major commonality between both laws is that each and every one is based on mutual social responsibility and contractual sanctity of the trade and monetary transactions. Like law of contract in English law where the elements of offer and acceptance play a major role, the Islamic law is also based on contracts; therefore if the contract does not involve any prohibited element then it could be governed and implemented by any judicial system. The participants of the seminar held by Islamic *Shari’ah* Council in London (2004) had a unanimous view that *Shari’ah* law will intervene only in certain issues related with financial, marital and inheritance disputes of the Muslim community where both parties will give their mutual consent and volunteer agreement to the court that they want to be governed and judged by the *Shari’ah* law through recognised *Shari’ah* council. More precisely, the legal

proceedings and hearing of the disputes and issuing the decree and giving the rulings is not necessarily confined to the *Shari'ah* councils but the English courts and legal judiciary will play a significantly active role to implement the contracts and the *Shari'ah* council can play the role of an advisory council giving the opinion of *Shari'ah* law and interpreting the law as required in the court to facilitate the proceedings and implementations according to *Shari'ah*.

In Islamic banking and finance in the UK, the prospected area of our research, the prohibition of interest, the financial products based on the principle of prohibition of interest, elimination of *Gharar* or any other element of unlawfulness in the contract will come under the jurisdiction of *Shari'ah* law for those who voluntarily want to have such financial contracts but more emphatically, these contracts based on the principle of mutual social responsibility as mentioned earlier will be governed and implemented by the traditional judiciary of British legal system. So, the law of *Shari'ah* in the UK means the recognition of certain parts of *Shari'ah* law relating to family disputes, financial matters and their implementation by the legal authorities and traditional judiciary of British legal system.

It is an undeniable fact that both English and *Shari'ah* laws share many commonalities to a certain extent and both of them are based on certain fundamental principles like truth, equity, proportionality, social responsibility, obligations and rights, justice to everyone without any racial, gender and religious discrimination. So, keeping democratic values, example of Jewish community courts (Beth Din institution), and the contextual comments of Dr. Williams and Lord Phillips, one can have the impression that the recognition of *Shari'ah* law and accommodating the *Shari'ah* councils in Britain will not be a problematic issue.

2.2.6 Islamic Shari'ah and Prohibition of Interest

The traditional banking system is based on the mechanism of interest. Not merely banking system, but the institution of interest in the Western capitalistic economies plays a significant role in the determination of all economic and business activities. There are several theories of interest put forward by the western economists in Economic literature. These theories in fact explain the traditional viewpoint of the Western economists that's why the interest is justified and charged in a capitalistic economy. From the perspective of prohibition of interest it would be interesting to know why interest is justified in the traditional banking system and why it has been prohibited in Islam.

The classical theory of interest is the viewpoint of Classical economists like Adam Smith, Malthus and Ricardo. The Classical school of thought put forward their justification as

‘interest was the compensation which the borrower paid to the lender for the profit he would make by use of his money’ (Qureshi, 1946, p.13). Alfred Marshall (1890) from Neo Classical School emphasises on the demand and supply sides of savings and mentioned that interest is determined at the point of intersection of both curves. To him interest is the reward for the sacrifice of saving or waiting. Lord JM Keynes (1936) criticised this theory severely saying that saving was not determined by interest but the income of the people was the major determinant of saving and so saving rate was insensitive to the rate of interest. Another criticism mentioned that no evidence was there to establish the argument that all the savings were invested. The booms and recessions showed the fact that any changes in the rate of interest did not produce any significant impact on investment (Qureshi, 1946).

Another English economist NW Senior explained the view that interest was the price paid for abstinence (Senior, 1836, p.59). He introduced the time element in the employment of capital as it was remarked by Lassalle that ‘the profit of capital is the wage of abstinence’ (Qureshi, 1946, p18). Marshall used the word waiting for abstinence. The theory was also rejected and criticised by many economists as it did not explain the justification of interest in a satisfactory way.

The productivity theory of interest was explained by Bohm Bawerk who interpreted that the productivity of capital was the cause of interest. To him the capital lead to produce, more goods and increase the value of goods. But common experience showed that extra production decreased the prices of the goods and hence their value. There is more accepted version of this theory known as marginal theory of interest which explains that rent on the capital asset is paid for the marginal productivity of that capital asset. But the critics objected that why was interest charged from consumption goods. Qureshi (1946) also mentioned the criticism about the theory that it did not explain how the rate of interest was determined and in case of any loss in a business venture why the borrower had to pay interest.

The new development in the interest theory is the monetary theory of interest which is regarded as modern theory of interest. Ohliln (1937) and Keynes (1936) suggested that interest was purely a monetary phenomenon. To them the rate of interest is the price of credit. There is a difference of opinion between these economists that whether the rate of interest is determined by the demand for loanable funds and supply of loanable funds or determined by the supply of and demand for money itself. Both views are regarded as loanable funds theory by Ohliln and liquidity preference theory by Keynes. Critics say that liquidity preference

approach is a psychological phenomenon. Keynes refuted the argument of Marshall that an increase in rate of interest would increase savings and hence investment. According to Qureshi (1946) 'Keynes is very close to the Islamic approach of interest by admitting that the rate of interest in a properly run society may be zero and at the same time admits that people can earn money by enterprise' (Qureshi, 1946.p.36).

So, according to the advocates of Islamic banking all the main theories of interest could not give a satisfactory justification for charging a rate of interest and therefore they denied the institution of interest as a determinant of saving and economic activity (Saeed, 2001).

Interest from Islamic perspective is a deterrent to economic growth and a means of economic exploitation. Therefore, Islamic *Shari'ah* has prohibited interest very strongly and explicitly. In Qura'n and *Sunnah*, the most fundamental sources of Islamic *Shari'ah*, the word Riba has been mentioned for all kinds of interest and its prohibition has been declared unambiguously.

To define the meaning of Riba has never been easy and there is not unanimity about the issue among jurists in Islamic jurisprudence. The jurists do have a difference of opinion concerning the meaning and interpretation of Riba. The term Riba and its various literal derivatives have been used on numerous occasions in Qura'n with the literal meaning as 'growing', 'increasing', 'rising', 'swelling', 'raising', and 'being big and great' (Saeed, 2001). Another earlier writer, S.M. Ahmad (1947) says that 'Riba literally means an excess or addition' (Ahmad, 1947, p.22). Another famous and pioneer writer on the Islamic theory of interest A. I. Qureshi (1945) has written that 'The word Riba means increase in anything, that is addition. For instance, such and such a person gave such and such a thing in addition' (Qureshi, 1945, p.49). According to Schacht (1964), Riba can be defined formally as 'a monetary advantage without a countervalue which has been stipulated in favour of one of the two contracting parties in an exchange of two monetary values' (Schacht, 1964, p.145). Every addition and increase is not unlawful and prohibited only unjustified addition and increase which is related with loan and is subject to increase with the passage of time.

There is also an argument that the concept of Riba during the time of Prophet (pbuh) was completely different from the functioning of bank interest in a modern economy (Fazlur Rahman, 1964). Some scholars who have discussed the issue from another perspective like Abdullah Yousaf Ali (1938), Fazlur Rahman (1964), D. M. Qureshi (1984), have put forward their argument that not every increase on the principal is interest based on the differences like: usury and interest; nominal and real interest; consumption and production loan;

individuals and institutions. The fact remains undeniable, as mentioned by Omar and Haque (1996), 'the interpretation of the prohibition of Riba has in practice been subject to great controversy' (Al-Omar & Haq, 1996, p.23). So, the difference of opinion has always been there, but Abdullah Saeed (2001) has discussed extensively the minute details of the issue in terms of interpretations and meanings given by various scholars and then in the end he concludes as the most general and commonly acceptable interpretation implying that 'any increase charged in a loan transaction over and above the principal is *Riba*' (Saeed, A. 2001, p.17). Also, one of the most important documents on Islamic banking, the CII (Council of Islamic Ideology) Report is more explicit: 'there is complete unanimity among all schools of thought in Islam that the term '*riba*' stands for interest in all its types and forms' (CII, Consolidated Recommendations, p.7).

Another interesting and significant point to be noted is that in Islam the term *Riba* is not only confined to money lending, but if there is any addition or increase in the trade transactions and exchange of goods then it is also included in the concept of *Riba*. In the famous *Hadith* narrated by Abu Saeed Khudree (ra) six things were mentioned by the Prophet (saw) in which he not only included the gold and silver which were used as money but he also included dates, wheat, barley and salt where he said that these had to be exchanged equal for equal (Sahih Muslim,). The Prophet (saw) ordained Bilal, his companion, to sell one type of dates and pay the money to buy the different types of dates based on the fact that they could be different in the quality. In early Islamic *Shari'a* literature therefore two kinds of Riba are found to be very common: *Riba al Nasiah* and *Riba al Fadhl*. The former type deals purely with the money-to-money lending concept of *Riba* whereas the second one is mainly related with barter exchange where goods are exchanged for goods. So the concept of *Riba* is wider and comprehensive and it is not confined only to the money lending activities in the economy (Iqbal and Mirakhor, 2007).

Allah, the Exalted has mentioned the prohibition of interest in the Qura'n more than once in different chapters. The condemnation and ultimate prohibition of Riba is very severe and devastating in the Qura'n and it is unique in the sense that Allah has declared war against those who do not refrain from dealing with interest. The declaration of war has not been associated to any other sin even to polytheism or paganism, the greatest sin. By prohibiting interest, the Qura'an has closed all the doors of exploitation and taking advantage of vulnerable and needy people of the society. In this regard, not only interest, but all kinds of unlawful and unjust financial transactions (like gambling) are prohibited in the Qura'an.

Allah, the Almighty says: ‘O you who believe, do not consume your property among yourselves wrongfully, but let there be trade by mutual consent....’ (Noble Qura’n 4:29 stand one whom the Evil one by his touch).

In the following section all those verses from the Qura’n have been quoted in which Allah has prohibited interest:

1. Those who devour usury will not stand except as Hath driven to madness. That is because they say: "Trade is like usury," but God hath permitted trade and forbidden usury. Those who after receiving direction from their Lord, desist, shall be pardoned for the past; their case is for God (to judge); but those who repeat (The offence) are companions of the Fire: They will abide therein (for ever) (Noble Qura’n 2:275).

2. God will deprive usury of all blessings, but will give increase for deeds of charity: For He loveth not creatures ungrateful and wicked (Noble Qura’n 2:276).

3. O ye who believe! Fear God, and give up what remains of your demand for usury, if ye are indeed believers (Noble Qura’n 2:278).

4. If ye do it not, take notice of war from God and His Messenger. But if ye turn back, ye shall have your capital sums: Deal not unjustly, and ye shall not be dealt with unjustly (Noble Qura’n 2:279).

5. O ye who believe! Devour not usury, doubled and multiplied; but fear Allah that ye may (really) prosper (Noble Qura’n 3:130).

6. That which ye lay out for increase through the property of (other) people, will have no increase with Allah; but that which ye lay out for charity, seeking the Countenance of Allah, (will increase): it is these who will get a recompense multiplied (Noble Qura’n 30:39).

Although, the prohibition of interest has been mentioned in the Qura’n very clearly, but the details of interest and its different forms have not been described in any part of the Qura’n. In fact it is the *Sunnah* of the Prophet Mohammad (pbuh) that gives relatively more description and details of the subject matter. Although these details are again insufficient to determine explicitly all the aspects of *Riba* as pointed out by Omar , the second caliph when he said that

the Prophet passed away without explaining the meaning of *Riba* in the Qura'n (Ibn Kathir, *Tafsir* , I, p.335).

In the *Sunnah* we find some references related with *Riba* attributed to the Prophet (pbuh). The farewell sermon of the Prophet on the occasion of pilgrimage is very prominent in containing the prohibition of *Riba*. He reportedly said: "All [contracts] of *Riba* of the Pre-Islamic period are null and void. The first [contract of] *Riba* I am cancelling is that of Abba's b Abdul Muttalib" (Muslim, Sahih, V, p.50). The famous *Hadith* of six commodities reported by Abu Saeed Khudri (mAbpwh) also describes the fact that Prophet (pbuh) said: 'Gold for gold, silver for silver, wheat for wheat, barley for barley, dates for dates, and salt for salt should be exchanged like for like, equal for equal and hand-to-hand [on the spot]. If the types of the exchanged commodities are different, then sell them as you wish, if they are exchanged on the basis a hand-to-hand transaction' (Muslim, Sahih, V, p.44). On the authority of Jabir (mAbpwh) the Prophet (pbuh) cursed the devourer of usury as also its giver, the scribe of the deed and the witness to it and said they are alike' (Muslim, Sahih,).

The prohibition of interest in Islam, of course, is the most significant perception of Islamic finance. But it does not mean that it is a concern of only Islamic faith and other monotheistic religions like Judaism and Christianity have not given any instruction or guidance in this regard. Judaism and Christianity both have very similar views about the prohibition of interest. There is clear mention in the bible about usury and interest which states the prohibition of interest. For a very long time at least 1400 years the ban on interest has been practised in the Christian faith. Later this ban was confined to the exorbitant rate of interest called usury. In many European countries this ban on exorbitant rate of interest is still in operation (Hassan & Lewis, 2004).

Judaism, prior to Islam, had also prohibited interest. In the Old Testament we read: If you lend money to any of My people with you who is poor, you shall not be to him as a creditor, neither shall you require interest from him (Ex. 22:25).

Christianity has a very similar view about interest in the Holy Scripture. For example, in the Gospel according to Luke reads: Give away to everyone who begs of you, and of him who takes away from your goods, do not demand them back again (Luke 6:30). It is, therefore, surprising to note that the Old Testament has been subjected to such distortions that the meaning of "My people," which originally had a broader application, later

became restricted to the Jews alone, as we read in Deuteronomy, "You may lend on interest to a foreigner, but to your brother you shall not lend on interest". (Deut. 23:20). Hence, from the above discussion it is easy to draw the conclusion that Islamic law is not alone in banning Riba, other monotheistic religions such as Judaism and Christianity have also given very explicit rulings on usury and interest being unjustified and prohibited. For the reason that usury was prohibited in the early scriptures of the Gospel and Torah, in many European countries still there are usury laws in force regarding the prohibition of exorbitant rates of interest (Hassan and Lewis, 2004). In the UK, at the moment no such law is in operation which hinders the people to charge an exorbitant rate of interest but certainly in the past there was a restriction on charging exorbitant rates of interest.

2.3. Islamic Financial Instruments and Retail Islamic Banking

Principally, the Islamic banking and financial instruments are very different from their traditional counterparts. Sometimes, the functioning of these instruments seems to be very similar to the traditional banking and financial instruments, but in fact the whole mechanism is entirely different. The services provided by Islamic banks might be very similar, but the aims and objectives of Islamic banks also differ from their traditional counterparts. According to Dr. Umar Chapra (1985) the most important and basic goals of Islamic banks are: economic well-being with full employment and a high rate of economic growth, socio-economic justice and an equitable distribution of wealth, stability in the value of money, and the mobilisation and investment of savings for economic development in such a way that a just (profit-sharing) return is ensured to all parties involved (Chapra, 1985, p.34). Most of the people ponder on Islamic banking externally, and looking at the apparent commonalities of these two different types of banking they say that it is merely a change of name. In this section of the discussion, an attempt has been made to clarify the fundamental and eminent differences between Islamic financial instruments and their traditional counterparts.

In traditional banking, the whole mechanism is based on rate of interest which is a fixed and pre-determined positive rate of return on capital. The depositors and financiers get interest on their deposits and savings, whereas the borrowers and entrepreneurs pay interest on their loans and financings. The banks charge and pay different rates of interest and the difference between these two rates of interest is the profit of the banks. This profit is increased and multiplied through the process of credit creation. All the financial instruments and their

derivatives in the traditional banking system base on the same mechanism, interest being the pivot of the interest based financial economic system.

In the Islamic economic model, interest is completely forbidden as it has been mentioned before, provided that base of prohibition of interest, in an early Islamic banking model presented by Mohammad Uzair (1955), the emphasis was given to two important fundamental principles:

- Return on capital cannot be fixed in advance but must be a proportion of profits;
- Capital, not labour, is liable to the financial risks of the venture.

Apart from the prohibition of interest, a few other basic tenets have also to be kept under consideration for the operational activities of the banks in compliance with *Shari'ah*. These include:

- Participation only in 'Halal' (lawful) business and investment activities;
- Transactions ought to be free from any element of '*Gharar*' (speculation and unreasonable uncertainty);
- Levying '*Zakah*' (due charity) on all the savings and possessions of the banks and depositors once every year at the rate of 2.5% to benefit the poor and needy of the society;
- All the economic activities have to be in the legal frame of *Shari'ah* based on Islamic ethics.

Excluding the interest based financial transactions and keeping in mind the above mentioned fundamental principles Islamic banks are supposed to undertake only those operations which are not based on interest and also these compatible with other injunctions of *Shari'ah*. In other words the issue of full *Shari'ah* compliance has to be insured including prohibition of interest, prohibition of *gharar* and *mayser* and haram ventures and paying *zakah*. In the following section a brief description has been given of the operation of Islamic banking system and financial products (Algaoud & Lewis, 2001). Abolition of *Gharar* is another important aspect like prohibition of interest in Islamic banking system. The *Gharar* sale is also prohibited in Islam (El-Gamal, 2001). In the principles of Islamic finance, it is trading in

risk and excessive uncertainty. El-Gamal (2001) mentioned that Zuhayli and Zarqa described it as a trade of those things whose existence, characteristics and measures are not known. Therefore its ambiguous nature becomes like gambling (El-Gamal, 2001).

2.3.1 Funding Operations

All the banking systems whether Islamic or Un-Islamic, corporate or retail banking systems have to accept and advance some sort of funding. People use the banks as financial intermediaries. These banks also have their own capital and equity apart from the deposits of the people. There are mainly two types of deposits (Khan and Mirakhor, 1989) and mainly Islamic banks rely on them as their major source of funding apart from their own capital and equity. These are transaction deposits, risk-free and no-return, and investment deposits which carry risk but also a variable return. On the basis of Islamic principles, the Islamic banks operate four types of accounts:

- **Current accounts:** It is money safekeeping accounts of the people where the money is deposited for daily transactions and no return by Islamic banks has to be paid to the depositors. These are risk-free as well. These accounts are considered as ‘trust and safekeeping’ on the basis of ‘*al-wadiah*’ principle of Islamic *fiqh*. The Islamic banks can use the money as a trustee for short transactions on the bank’s responsibility, not for any investment (Algaoud & Lewis, 2001). The banks have to pay these deposits in full or a part on the demand of the depositors as and when required. In some banks these are called ‘*amanah*’ accounts. HSBC in the UK and also in some other countries provide a virtual account named as ‘*amanah* account’ to the customers.
- **Saving accounts:** Deposits in these accounts are accepted by the Islamic banks like any traditional commercial bank with a difference that in the case of Islamic banks no fixed or predetermined rate of return is paid, whereas in interest-based traditional banks a pre-determined rate of interest is paid to the depositors by the bank annually. It is different from the previous current accounts in the sense that it carries the risk element and a variable yield or return is attached to the principal amount on an annual basis. There are different ways of managing the accounts by Islamic banks. The Islamic banks accept deposits on the basis of various principles. For example, ‘*al-wadiah*’ (trust/custody) and *Qardh Hasan* are used for current accounts. The Islamic banks accept the deposits on the principle of ‘*Qardh Hasan*’

(benevolent loan) where Islamic banks use them for further increase in the value and give some pecuniary and non-pecuniary benefits to the depositors like interest free personal finance. *Mudharaba* principle is used for saving accounts and the deposits can be integrated in a with investment accounts where the money is used for some entrepreneurial venture on *Murabaha* or *Mudharaba* basis and the profit is shared by the bank and the depositor on an agreed predetermined ratio. The risk element and the sharing in the profits of the bank make this account different from the current account.

- **Investment accounts:** The primary concern of the depositors in these accounts is to earn profit. Principally, they are not concerned with safekeeping of their monies and using the deposits for transaction purposes only. These accounts are operated on the principle of *Mudharaba al-Mutlaqa*, where the depositor has to accept certain conditions like: a) a higher fixed minimum amount; b) a longer duration of deposits; c) liability of the loss of some part or all of the funds in case any loss occurs to the investment venture. The Islamic bank acts as an entrepreneur on behalf of the depositor. The deposits can be withdrawn if an agreed advance notice is given to the bank (Algauod & Lewis, 2001).

- **Special investment accounts:** These accounts are also operated under the principle of *Mudharaba* and these are directed to larger investors and institutions. The major difference between investment and special investment accounts is that the former can be used in any investment venture and the latter will be used in a specified huge project or investment venture carried out by the bank. The maturity and distribution of the profits are separately negotiated for each special investment account (Algauod & Lewis, 2001). Higher fixed minimum amount, longer duration of deposits and liability of loss are essential articles of this contract.

2.3.2 Modes of Financing

The financial instruments in Islamic banking are based on *Shari'a* and do not involve any type of interest. These instruments are called modes of financing in the literature of Islamic banking. The major modes of financing are also called **sharing modes** as they are based on the principle of profit and loss sharing (PLS). The sharing modes earn profit and return which is not fixed and predetermined and they also share the risk of loss proportionately according to the proportionate shares of the partners and financiers. There are two types of partnerships:

full partnership and non-voting partnership or finance. The first one is *Musharaka* and the second one is called *Mudharaba* (Saeed, 2001, and Algauod & Lewis, 2001).

The Islamic banking system also operates another mode called **sale modes** of financing. In the sale modes the banks buy real goods, products, equipments and commodities from the open market and then sell them at an agreed marked-up price to the clients. The differential between the cash price in the market and the credit price to be paid in future in instalments creates profitability for the bank. It is based on the principle of *Murabaha*. There are different types of sale contracts which will be mentioned later (Saeed, 2001).

The last kind of financing is called the **leasing modes** which is based on the *Ijara* principle where the bank buys any asset or equipment and advances it to the user and the rental money is the profit of the finance which is agreed and predetermined. Again, there are different types and practices of *Ijara* which will be discussed in detail later. So, in fact all the financial instruments are based on four major principles of Islamic *Shari'a* and new derivatives and products are based on any possible combinations of any of these fundamental principles. In the following section a brief description of these basic principles has been given (Saeed, 2001)

2.3.2.1 Musharaka (Equity Participation)

Musharaka is the basic principle of sharing modes of financing in Islamic banking. The term has been driven from the root word 'sh-r-k' or '*shirkah*' which means partnership. There is another word '*shari'k*' that means partner. The first root word has been used in the Qura'n approximately 170 times, although the word meant partnership in these verses but none of them has been used in the sense of partnership in the business venture (Saeed, 2001). In Islamic '*fiqh*' the word '*Musharaka*' is not found in the books, it is '*shirkah*' which is common and used frequently and more commonly by the jurists in their discussions (Usmani, 2004). The word '*Musharaka*' has been used very recently in the literature of Islamic banking by those writers who have written extensively on the subject in the past few decades.

In the literature of Islamic *fiqh* those early jurists who have written on the subject of '*shirka*' and we find the basic guidelines in their writings are: Ibn Qudama (Mughni), Ibn Rushd (Bidayatul Mujtahid), Sarkhasi (Mabsut), Ibn Taymia (Majmu' Al-Ftawa), Showkani (Nayl-ul-Awtar) and many others (Usmani, 2004).

In the literature of Islamic '*fiqh*' there are different types of partnership which are mainly categorised under two headings: a) *Shirkat-ul-Milk* (joint ownership of a property or asset) it could be optional like two persons purchase a property jointly and they share the ownership together or it could be an automatic partnership as the inheritance of a deceased person is jointly shared by the heirs; b) *Shirkat-ul-Aqd* (contractual partnership) it is also called joint commercial enterprise, where a contract determines the joint ownership or commercial partnership. The term *Musharaka* is referred to as *Shirkat-ul-Aqd* where partners enter a contractual agreement on the basis of three reasons. Usmani (2004) has described different types of *Musharaka* contracts as in the following.

1. *Shirkat-ul-Amwal*; where the partners enter a contractual agreement and invest their money in an entrepreneurial commercial enterprise to share the profits and loss jointly on a predetermined ratio. The basis of partnership is money in the contract. *Musharaka* in the modern banking terminology is based on this particular type of partnership.
2. *Shirkat-ul Amal*; where the partners enter a contractual agreement to render their services jointly and then the money received as remuneration is distributed by them according to the predetermined agreed ratio. The basis of partnership is '*aml*' which means effort or act or service. This partnership is also called '*Shirkat-us-Sana'i*' and '*Shirkat-ul-Abdan*' in the literature of Islamic *fiqh* (Usmani, 2004).
3. *Shirkat-ul-Wujooh*; where the partners can enter a contract, just to share the profits by purchasing the commodities at deferred payments and selling them at the spot. Here they do not invest any money or any labour as in the case of the two former types of partnership (Usmani, 2004)

In the modern Islamic banking terminology the term '*Musharaka*' is restricted to only the first type of contractual partnership where the partners invest their money proportionately in a commercial enterprise and they enjoy the status and rights of joint ownership. The profits and losses are also shared jointly on the basis of their respective proportionate shares in the investment. The *Musharaka* contracts are made mainly for long-term investment projects. The ratio of profit distribution could be different from the proportional shares and respective equities in the investment of the project (Usmani, 2004). Therefore it is essential that before entering the contract the relevant partners are aware of the profit ratio. The profit ratio has to be determined prior to the commencing of the contract and no fixed or lump sum profit can

be given to any partner. The profit ratio is determined on the basis of various factors like: 1) personal characteristics of the partner; 2) the amount of capital involved; 3) the security provided; and 4) risk involved in the venture (Saeed, 2001). On the other hand, the losses, if any, have to be shared strictly and essentially on the basis of proportional shares of capital and in accordance with respective equities in the investment.

Ideally, the share of capital involved in the business venture should be in the form of money but if it is not then strictly the monetary value of the capital (product, commodity, equipment, property etc) at the time of entering the contract has to be declared and agreed upon by the relevant partners to avoid any confusion regarding the equities of the partners in future. Then after the commencement of the contract such capital will be a joint ownership of the partners. The partners have to be informed beforehand about any change in the contract and starting any new business and a mutual agreement has to be ensured before commencing any change in the existing contract. Similarly, the accounts and other business information have to be available for all the relevant partners when required.

The *Musharaka* contract can be terminated on the death of a partner or giving of a prior notice of an agreed time period. In the case of death of a partner the contract can be renewed by mutual agreement of the existing partners and the heirs of the deceased partner. Similarly, if any partner becomes incapable of enacting the *Musharaka* contract because of some mental health problems then again the *Musharaka* contract will either be terminated or the heirs of the partner will get involved in the contract.

The Islamic banks are advancing investment financings on the principle of *Musharaka*, although the proportion of investment by Islamic banks on the basis of PLS modes is extremely low as compared to those modes which have a secure fixed return like *Ijara* and *Murabaha* (Siddiqui, 2006). Abdulla Saeed (2001) has categorised the *Musharaka* contract into three different types:

- Commercial *Musharaka*
- Diminishing *Musharaka*
- Permanent *Musharaka*

The commercial *Musharaka* is for a special business venture or investment project for a specific purpose. It is a constrained contract and the business activity is restricted to the

specific purpose. At the end of the project the contract is also terminated. The contract is more liquidated because an approximate time is generally specified to liquidate the *Musharaka* contract, the capital turnover is higher, and so the return is also higher. The risk element is lower as the bank operates the account of the business and monitors the business activity very closely and regularly on the basis of transactions.

The diminishing *Musharaka* is getting relatively more popular and common in the present times in many Islamic banks mainly in the Islamic housing finance market (Iqbal & Mirakhor, 2008). In diminishing *Musharaka* the Islamic bank and the client enter the *Musharaka* contract on an equity basis and the Islamic bank receives profit on a pro-rata basis. The term of the *Musharaka* is not for a long period and also the Islamic bank receives some percentage of profit from the other partner's profit as a contribution to purchase the share of the bank which will gradually decrease the equity of the bank. By the termination of the contract the property will go solely in the ownership of the client.

The permanent *Musharaka* is a contract where the Islamic bank participates in the equity and receives a share of the profit on a pro-rata basis. The time period of the contract is not specified and therefore it is considered as permanent but any partner either bank or the client can terminate the contract with a prior notice being served.

The critics for some practical reasons justify the fact why Islamic banks and the entrepreneurs are not more comfortable with *Musharaka* contract (Usmani, 2004). To them the *Musharaka* contract involves the management of the entrepreneurial business venture which can increase the costs of the Islamic bank. The business accounts of the venture can also be passed on to the tax collecting authorities and the tax liability will obviously increase. There is also fear of disclosing the business secrets when the partners are involved in the management.

2.3.2.2 Mudharaba (Partnership/ Joint Ownership):

The second major and fundamental principle in terms of PLS modes of financing is called *Mudharaba*. In the Qura'n there is not any clear mention of the word '*Mudharaba*' but the root word dh-r-b from which the word '*Mudharaba*' has been derived, it has been mentioned many times and it has also been mentioned in the sense of travelling either for trade or fighting for the sake of Allah. The history of '*Mudharaba*' goes back to the time of Prophet Mohammad (pbuh) when he engaged himself in a business venture as a '*Mudharib*' being a partner with the investment of lady Khadija (mAbwh) who later became his wife (Hassan & Lewis, 2007; Saeed, 2001). It is also a partnership but not based on equity. In this special kind

of partnership the capital is provided by one partner called '*Rabb ul Mal*' and the business expertise and entrepreneurial skills are provided by another partner called '*Mudharib*'.

In other words, the investment comes from one partner (the investor) and the management and work is an absolute and exclusive responsibility of second partner (the entrepreneur) and both of them enter a contractual agreement of sharing the profits at a predetermined ratio. In case of any loss the investor is solely liable to all the monetary losses and the entrepreneur's labour and work will go in vain. But the fact remains that any loss because of any misconduct or negligence of the entrepreneur will be the sole liability of the entrepreneur.

The investor can give money in one transaction to one '*Mudharib*' or more to do one business or more (Usmani, 2004). The profit ratio to which the profits have to be distributed is determined entirely on the basis of mutual consent of both partners. The only thing is that a fixed amount of capital cannot be determined before the commencement of the business venture. But the profit ratio between the partners on the basis of which they both are entitled to share the profits has to be determined explicitly with mutual consent before entering the '*Mudharaba*' contract. The profit ratio could be different between the partners in various situations. The profit ratio could also be varying based on the difference of businesses. The assets of the business are sole ownership of the investor and the entrepreneur is entitled only to share in the profits according to the prescribed ratio. The entrepreneur is entitled to share the profits therefore he is not allowed to claim any fee, salary or remuneration for the work done by him for the '*Mudharaba*' (Usmani, 2004, p. 51).

Some scholars and jurists have the opinion that the *Mudharaba* contract is only for commercial enterprise and not for manufacturing business as mentioned by Abdullah Saeed (2001) but in reality and Islamic banking practices this restriction has not gained any acceptance and popularity (Saeed, 2001).

In modern Islamic banking the *Mudharaba* principle is used as a mode of financing to invest the deposits of the customers in investment and business ventures. The way as it is used in the system it is called two-tier *Mudharaba*. Initially the depositors give their money to the bank for investment here the bank is *Mudharib* and the depositor is *Rab ul Mall*. Then at a second stage the bank gives money to the entrepreneur for investment where bank is *Rab ul Mal* and the entrepreneur is *Mudharib*. For this reason it is called two-tier *Mudharba* and initially it was designed in the early 50s as pointed out by Uzair (1955).

The *Mudharaba* contract is mainly categorised into two main categories as described by Usmani (2004) in 'Islamic Finance'.

- *Mudharaba Al Mutalaqah* (Unrestricted *Mudharaba*); it means that the contract is flexible and open and there is not any particular restriction upon the entrepreneur to invest the money in a particular business. The entrepreneur is authorised to invest the money in any investment venture provided the condition that the business activity is not prohibited and unlawful in Islamic *Shari'a*. Most of the Islamic banks around the world practise this principle as there is not any restriction upon them from the depositors and investors to invest the money. The only condition that is essential to meet primarily is that the money is not invested in any *Haram* or unlawful business activity. Otherwise the *Mudharib* has a complete freedom to invest the money according to his discretion in any profitable *Halal* or lawful business from *Shari'a* perspective.
- *Mudharaba Al Muqayyadah* (Restricted *Mudharaba*); it means that the investor or the *Rab ul Mal* explicitly impose some restriction upon the entrepreneur to invest the money in a specific investment venture. The entrepreneur is not authorised to invest the money in any business activity just using his own discretion. It is essential for the entrepreneur to invest the money only either in the prescribed business or to take permission from the investor to use the money for any other business activity. The *Mudharaba* companies run the business in some specified business ventures, but the retail Islamic banks don't feel comfortable to accept the money with such a restriction as it narrows down the channels and avenues of investment for the banks and also increases the cost of running the specific projects. The interference in the management of the business by the investor creates problems and difficulties for the entrepreneur and it also hinders the smooth and efficient performance of the *Mudharib* (Usmani, 2004, Iqbal & Mirakhor, 2007).

In Islamic banks the *Mudharaba* contract like *Musharaka* is purely a profit and loss sharing financial instrument and it is an association of two components: work and capital. Principally, in the *Mudharaba* contract the Islamic bank as a *Rab ul Mal* can't take any guarantee of capital and profit from the *Mudharib* which will nullify the contract as it will exclude the element of risk on the side of the bank. But in practical terms all the Islamic banks require some sort of guarantee for any *Mudharaba* contract where it is manipulated in the sense that

the guarantee is not for the capital but it is for the use of capital and compliance of the contract. The investor and the entrepreneur both share profits and risks in the business ventures; the risk of loosing a part of capital or all capital on the side of investor and risk of loosing the labour and work on the side of entrepreneur. The justification of profits is based on sharing the risks. Both are entitled to the profits based on their individual contribution to the venture; the contribution of money on the side of investor and the contribution of work on the side of labour and work. The profit ratio includes many factors which determine the shares of both partners in the profits like; bargaining power of the client, the duration of the contract, the market interest rate, profitability of the venture, and marketability of the goods and personal characteristics of the *Mudharib* etc (Iqbal & Mirakhor, 2007).

The Islamic banks open the account for the entrepreneur and goods and services are purchased and then sold at a profit. The contract is mainly for commercial enterprises and short-term business ventures. The management, marketing, storage and any other related activities have to be done by the entrepreneur. In the contract the entrepreneur has to comply with any condition imposed by the bank like not using the funds for any other purpose. The Islamic banks also impose the maturity condition of *Mudharaba* contract and by the end of the term the capital and any potential profit based on the agreed ratio have to be returned back to the bank. Any extension in the duration of *Mudharaba* can cause many complications and extra costs to the Islamic banks because the idle funds have an opportunity cost and also because of the time value of money. Therefore some Islamic banks charge the compensation for the loss of the bank as mentioned in the *Mudharaba* contract of International Islamic Bank for Investment and Development it was stated: ‘The contract would automatically be cancelled by its expiry date. The *Mudharib* must return the funds of the *Mudharaba* to the investor with any compensation for keeping the funds during the time of the contract without making them productive’ (Saeed, 2001, p.57).

Similarly the *Mudharib* is required to submit the balance sheets, profit and loss accounts, progress reports and all the relative information to the Islamic bank. Also the bank’s representatives can check the accounts and do the stocktaking at any time in the warehouse etc. If the Islamic bank feels at any time that there has been a contravention of the contract and breach of the terms and conditions then without any prior warning or legal notice the *Mudharaba* capital can be liquidated.

2.3.2.3 Murabaha (Cost-plus/ Mark-up):

The most common, popular and relatively secured mode of financing in the contemporary Islamic banking practices is based on the principle of *Murabaha*. It is a sale contract which yields profit to the Islamic bank in a trade transaction as the good is sold on credit. The term *Murabaha* is a derivative of the root word r-b-h which means material gain or profit. Most of the Islamic banks are using *Murabaha* as a major mode of financing and therefore it is regarded as the widely used method of banking operations in the economic circles but the concept of *Murabaha* as a principle as mentioned in the books of Islamic Fiqh is entirely different. The reason why this method of financing has gained popularity in Islamic banking is that the original methods of PLS modes of financing are more risk-laden and uncertain whereas the *Murabaha* method is a so-called or allegedly regarded as ‘interest-like’ mechanism where the capital of the financier (the Islamic bank) and its return are secured.

According to T. Usmani (2004), “*Murabaha* is in fact, a term of Islamic Fiqh and it refers to a particular kind of sale having nothing to do with financing in its original sense. If a seller agrees with his purchaser to provide him a specific commodity on a certain profit added to his cost, is called *Murabaha*” (Usmani, 2004, p.95). The added profit could be a lump sum or a percentage of the original price. Similarly, payment has not necessarily got to be deferred and paid in installments in future. Therefore essentially it is not a credit sale as more than often it is regarded.

Another contemporary writer on the subject Abdullah Saeed defined *Murabaha* as a “sale of a commodity at the price which the seller paid for it originally, plus a profit margin known to the seller and the buyer (Saeed, 2001, p.76). There is not any mention of *Murabaha* in the Quran and *Sunnah* but the consensus of the Islamic jurists on the lawfulness of this contract is based on the general principle that every contract is lawful unless there is any specific mention of being anything unlawful. Also as it has already been mentioned in the section of Islamic *Shari’ah* that the trade based on mutual consent is lawful and justified according to the rulings of the Quran.

The *Murabaha* contract is a sale contract from *Shari’a* perspective therefore it has to meet certain conditions of the sale contract (Kettell, 2008). The conditions have grave significance and must be fulfilled otherwise the contract will be null and void. The following are some of the conditions of the sale contract mentioned by Taqi Usmani (2004) from the *Shari’ah* point of view.

1. The existence of the subject of sale.
2. The ownership of the subject of sale.
3. The possession of the subject of sale.
4. The instant and absolute sale (If not Salam and Istisna sale)
5. The property value of the subject of sale.
6. The subject of sale is not unlawful (Haram) commodity.
7. The identification of the subject of sale.
8. The certainty of delivery of the commodity sold.
9. The certainty of the price of the subject of sale.
10. The sale contract is unconditional unless the condition is recognised by the buyer and seller as a part of the usage and transaction (Usmani, 2004, p.105).

The conditions of *Murabaha* essentially have to be met for a valid and justified sale. It is not an interest-bearing loan it is a sale of the commodity.

In contemporary practices of Islamic banking, *Murabaha* is simply a sale contract where the purchaser or a client approaches the financier or an Islamic bank and asks to buy a product or commodity on his behalf and he agrees to pay a higher price from the original or the initial price. The sale involves a middle man or an intermediary and the buyer knowingly and willingly pays a higher price from the original price for the services of the intermediary. Therefore from its first appearance it seems to be like interest-based mechanism of Islamic banks, but in fact it is completely different from interest which is based on the duration of the loan and related with the time value of money but instead it is based on the services rendered and not the payments deferred (Algaoud & Lewis, 2001). The legality of *Murabaha* in Islamic *Shariah* is widely accepted by all the schools of thoughts. There is not any dispute on the original form of *Murabaha* in the literature of Islamic jurisprudence because in this legitimate contract money is not exchanged for money. So it is a trade transaction in which the Islamic bank acquires an asset on the request of a client from the market and then adds some mark-up on the original price and sells the commodity to the purchaser (Ayub, 2009, and Saeed, 2001). As the commodity is sold for money in *Murabaha* it is a trade transaction

whereas in the traditional finance based on interest money is exchanged for money and that is called monetary transaction. The role of Islamic banks is based on the services provided and is different from the traditional bank's role which advances only money as a money lender. For the services involved by the bank sometimes it is also called commission sale.

Originally, the *Murabaha* contract as mentioned before was merely a sale contract and used by a trader to provide the goods to a purchaser with an agreement that the purchaser would pay the cost of the product plus a mark up on that cost price. But now as the financial markets have developed more and banks have emerged as financial intermediaries, this role has been taken by the Islamic bank as a financier and the *Murabaha* is being widely used by the Islamic banks as a mode of financing. The Islamic banks are using this mode to generate some funding operation and finance various investment projects by supplying the goods based on *Murabaha* contract. The money comes from the clients of the bank who are depositors and the banks not only use saving and investment accounts for this funding but also the current accounts which are for transactions and safekeeping but considered as the trust (*amanah/ wadiah*) with the banks. More often the *Murabaha* contract is a credit sale where a commodity is sold at a higher deferred price compared to the cash price. The difference between the cash or price at the spot and price deferred in the future or credit price is called profit of *Murabaha* transaction (Ayub, 2009).

As the Islamic banks are operating widely this sale contract as a mode of financing therefore there are some new developments in the concept of *Murabaha*. One of the newly developed concepts specifically designed to meet the objective of personal finance and being operated by Islamic banks is called 'Reverse *Murabaha*' or '*Tawaraq*'. In this contract the client promises to buy a product from the bank at a mark up and then sell it to the bank or any agent of the bank and takes the money in cash. But the client will pay the money in instalments to the bank with the mark-up (Ayub, 2009).

The *Murabaha* contract is a legitimate and valid sale contract but some further developments in this contract made it a common mode of financing. Many people who lack knowledge of *Shari'ah* very often raise issues and objections on the permissibility, popularity and widespread usage of this principle in the contemporary practices of Islamic banking and finance. But it must be remembered that as long as the contract is compliant to *Shari'ah* and no unlawful and impermissible product and/or activity are involved in the sale contract then it

is one of the best forms of income generation as mentioned by the Holy Prophet (pbuh) in the ‘*hadith*’ of *Al-Jami Al-saghir* by *Al Suyuti* (El-Gamal, 2000, p.10).

Another concept related with *Murabaha* contract is the credit sale or more technically (in Islamic terminology) what is called ‘*Bay’ Mu’ajjal*’ (Vogel and Hayes, 1998). In simple words it is a sale contract with delayed or deferred payment. It is the closest ‘Islamic analogue’ as mentioned by Vogel and Hayes (1998) to the interest based finance and accordingly has been universally employed as a vehicle of finance throughout Islamic history. The increase in the price of a commodity on the basis of deferment has always been considered and remained controversial in Islamic *Fiqh*. The concept of time value of money in fact was introduced by these Islamic jurists like *Al-Kasani*, *Ibn Rushd*, *Ibn Taymiya* etc by accepting the increase in deferred price based on the evidence of Ibn Al-Arabi’s commentary on the verse, “but Allah has permitted trade and forbidden *Riba*” (2:275) mentioning the argument of Arabs by saying that increased price in deferred sale was also *Riba*. Abdullah Saeed (2001) has mentioned that some early jurists like Imam Malik and Imam Shafi did not sanction the difference in price on the basis of deferment. The difference of opinion about the validity of credit sale among the scholars is based on the situation when the seller says that I will sell this commodity for so and so for cash and for so and so for credit (Saeed, 2001, p.79). But if there is not any mention of cash price and the both parties have a mutual consent on an agreed deferred price and its repayment in the future then the validity of this contract is unanimously acceptable. Islamic law does not dictate to how to determine the price of a credit sale. It is entirely upon the mutual consent of the both parties i.e. buyer and seller, but obviously the other principles of justice and *Ihsan* cannot be disregarded in any contract. Normally the Islamic banks employ the LIBOR and also some other economic factors to determine the expected rate of return in fixing the price in such a sale. Additionally, the buyer in case of late payments in such a contract is subject to a penalty or/and imprisonment. This aspect of the contract can lead someone to conceive opportunity cost of capital expressed in Islamic banking and finance.

2.3.2.4 Ijarah:

Another popular mode of financing and commonly practised by Islamic banks is called ‘*Ijarah*’ which literally means to give something on rent. More technically to transfer the usufruct of any asset like a property, equipment, machinery or vehicle to a client and charge a rent based on mutual consent is called *Ijarah*. It is very similar to the concept of leasing in the English Common Law. The sale of the usufruct is permissible in Islamic *Shari’ah* based on

the verse in the Qura'n which states 'And if they suckle your offspring, give them their recompense (Noble Qura'n 65:6). Even the word *Istijar* that literally means getting something on hire or lease has been mentioned in the Qura'n in the verse which states 'Said one of them; O father hire him on wages, for truly the best to employ is a strong and trustworthy man' (Noble Qura'n 28:26). There is also mention in the books of (Abu Dawud, Ahmed, Al-Nasai) traditions of the Holy Prophet (pbuh) that he ordered the farmers to pay the rental for using usufruct of the land (El-Gamal, 2000, p.13).

This *Ijarah* contract is contrary to the sale contract having a major and basic difference between sale and lease, that in the former the ownership is transferred to the buyer while in the latter the ownership is retained by the landlord and only the usufruct is transferred and against that a rent is charged.

In the *Ijarah* contract the Islamic bank and the client have an agreement with mutual consent that the bank will finance an asset like equipment or property and retain the ownership of the asset but the asset remains in the possession of the client is charged a fixed and predetermined rental payments on a regular basis. The Islamic bank is called lessor and the client is called lessee. The rental payments suffice to amortise the investment of the bank and an element of profit. The leasing term is also fixed primarily and then at the end of the term the contract is renewed for the next agreed term. The major difference between Islamic leasing and conventional leasing is that in the former the leasing company owns the leased asset whereas in the latter the company could provide only money as loan to the dealer or manufacturer and charge some interest on it and not necessarily owns the asset. So the ownership, possession and delivery of the asset or object involve some risk and the involvement of risk validates the profit in the form of rental (Usmani, 2004).

Another concept called '*Ijarah wa Iqtina*' (hire-purchase contract) is also being frequently used by Islamic banking and financial institutions where the lessee promises to buy the asset at the expiry of the leasing contract. The Islamic bank purchases an equipment or a property on behalf of the client who promises not only to pay the rental of the usufruct of the asset but also a proportion of the value of the asset in installments as in the appointed tenure of the contract all the money is paid to the bank and the ownership of the asset is transferred to the lessee. So the money paid to the leasing company comprises of two components: i) rent of the asset and ii) capital contribution to purchase the asset at the end of the term. The distinctive feature of this contract is that the rental payments progressively tend to decrease as the units

of the share or equity of the bank diminishes gradually. This mode of finance is very popular in retail commercial and housing finance, car leasing and purchasing high-valued equipments in various investment projects (Iqbal & Mirakhor, 2008 and Ayub, 2009). The justification of the rental is based on the risk which the bank bears in case of the ownership of the asset, wear and tear (but virtually, in most of the cases the client is held responsible for the maintenance like insurance of properties in the housing finance in the UK), recession in the market, the variable demand of the asset etc.

Modern Islamic finance as in the Islamic housing finance, a combination of two contracts has been used for a while and still it is in practice, these are: i) Diminishing *Musharakah* and ii) *Ijarah*. Justice Usmani (2004) sanctions the validity of such a combination, although the complexity of these contracts arouses many doubts about the validity of such a combination. Principally, both these contracts are valid separately and their permissibility is unquestionable among all the schools of thought. Some intellectuals say that in such a contract the promise buy is on the side of the lessor and not on the side of the lessee which is free either to buy the asset at the end of the term returned to the lessor (El-Gamal, 2000).

The critics raised the issues like two contracts in one contract and two sales in one sale etc which were not allowed in Islamic law. Also, as mentioned by Vogel and Hayes (1998) the repair cost according to Islamic law has to be borne by the lessor and not by the lessee. Similarly if the repair loss is imposed on the lessee then it would increase the rent in an amount undeterminable in advance which is *Gharar*. Additionally, the usufruct of an asset is not something existing and tangible. It is a stream of use extending into the future. If the future events reduce the value of usufruct to the lessee then it is against the principle of justice to charge the same rent or to force him to buy the asset. As sometimes it happens in the case of negative equity in the housing market where the value of the house falls either due to decrease in demand or increase in supply. The future sale of the asset also raises the issue of conditional agreements which in Islamic law are not valid with unanimity of the scholars and jurists (Vogel & Hayes, 1998).

Theoretically, at least the Islamic Development Bank acknowledges the right of the lessee to cancel the agreement in case of complete destruction of the property, but virtually all the Islamic banks and Islamic financial practice seem to overlook the situation and transfer the burden of repair cost to the lessee (Vogel & Hayes, 1998).

2.3.2.5 Salam (Advance Sale):

The contract of *Salam* is also related with the sale related financing modes. Contrary to the credit sale where the asset or product is delivered in advance and the payment is deferred for a certain time period, in the Salam contract the payment is made in advance for a product to be delivered in a certain time period. As it seems to be that it is a sale of non-existent items and in Islamic law because of *Gharar* element any such sale is not permitted. But the Islamic law also facilitates certain types of business where the producer can promise to provide a product of certain quality and amount then it is permissible. The word *Salam* has been used in the Qura'n in several chapters and it has various contextual meanings. But the technical meaning of Salam as mentioned and used in the prevailing literature of Islamic banking has never been described in the Qura'n. However the Sunnah of the Holy Prophet (pbuh) mentions the exact details of the Salam contract during his life time. All the famous and major six books of Hadith narrate on the authority of Ibn Abbas:

‘The Messenger of Allah (pbuh) came to Madina, and found its inhabitants entering Salam contracts (with the price paid in advance) in fruits for one, two and three years. He (pbuh) said: “whoever enters into *Salam* contracts, let him specify a known volume or weight, and a known term of deferment” (El-Gamal, 2000, p.17).

According to this evidence from the *Sunnah*, one of the two important and the most fundamental sources of Islamic law, the Holy Prophet (pbuh) sanctioned the validity of forward sale where the quality and amount of the product has been defined clearly. Mostly the Salam contracts are made for agricultural products where the farmers can get some finance to purchase the seeds, fertilisers, and other agricultural inputs to cultivate the land and sell the crop and product of the land in advance which has to be delivered in future.

Islamic banks have made a further development in the contract of *Salam*. It was due to a problem faced by Islamic banking where the bank was left with the product when it was delivered on the promised time, and then the bank had to find a buyer of this product and also keep the product in the possession. So to avoid the hassle of possession, storage and finding a potential customer, the bank enters a parallel Salam contract with a separate potential buyer and sells the product to him/er. The bank makes profit in the trade. Here the point to be remembered is that the validity of these contracts is conditional with taking place of two entirely different and separate sale contracts. It is well-known that due to *Gharar* element the *Salam* buyer cannot sell the product before the delivery and possession of the product

because of the physical and constructive possession of the product is one of the prerequisites of the sale contract (Usmani, 2001 p.121).

In case of failure to provide the product due to unfavourable weather and changes in the climate, the producer either has to get the product of exactly the same description from the market and deliver to the bank or make the arrangement and agreement with the bank to provide it on a future date. In case of delay, according to Vogel and Hayes (1998) the bank either can take the price back without any increase or wait for the next delivery but in both cases it will lose a part of or full profit from the financing and transaction.

2.3.2.6 Istisna (Forward Commissioned Sale):

Among other sale contracts, in particular what is called Islamic forwards in finance is another development of the *Salam* contract which is called *Istisna*. Technically, it means an advance sale contract of manufactured goods. In this contract, the seller who is a manufacturer enters a forward sale contract with the financier (the potential buyer) to produce and manufacture a product of specified specification and deliver it in the future. For this reason it is also called “commissioned manufacture” as mentioned by Vogel and Hayes (1998). It is also used in the finance of construction of housing and other commercial properties. The payments can also be made progressively on different stages of the manufacturing or construction. The jurists have reasoned by analogy from permissibility and validity of the *Salam* contract to the permissibility of *Istisna* contract (Vogel & Hayes, 1998).

Like in *Salam* contract, Islamic banks also have made a further development where the bank enters into a separate *Istisna* contract with a third party and it is called “back-to-back” or “parallel” *Istisna*. This mode of finance is used to purchase high-valued and bulky products like ships and aeroplanes where the manufacturing requires a huge amount of money. The price in this contract (like in all other sale contracts) is determined on the basis of various factors like opportunity cost of money, cost-plus and mark-up, time or duration of the liquidation of asset etc.

In the olden days these contracts were specially designed to deal with the trade of agricultural products and manufactured goods but as modern world has witnessed the industrial revolution which has brought a major change in the goods and products and now most of the goods and products are fungible and generic, therefore the contracts have been extended to a wider range of products. Both contracts *Salam* and *Istisna* are widely and simultaneously being used to finance the new nature of generic goods with the notable

distinction as *Salam* being stricter and *Istisna* being more flexible in terms and conditions of the payment schedule (Vogel and Hayes, 1998).

2.3.2.7 Other Practices and some Important Terms:

The Islamic banks like other modern banking system practise many other operations and provide several banking services like: like transfer of money, travel cheques, letter of credits, safekeeping, lockers, counter services, advices, business management etc. All these services are paid for and the Islamic banks make money through these operational services. In the following section we just give a snapshot of some practices and introduction of the commonly used terms.

Musawama: Musawama is a general kind of sale like Murabaha but the distinction is that in Musawama the seller and the buyer make an agreement on the price without any reference to the price or cost incurred by the seller. Whereas in Murabaha the seller and buyer know the price or the cost and the buyer agrees to pay a cost-plus or mark-up on the price or cost (Ayub, 2009).

Jualah: It is a contract of offering a service for a pre-determined fee or commission. The client and the bank enter the contract where the client agrees to pay the bank some fee or commission for some specific service. This service can be used for offering advisory, asset management, consulting and professional services, and fund placement and trust services (Ayub, 2009, and Hassan & Lewis, 2007).

Qard Hasan: It is a benevolent loan or also called gratuitous loan where the lender is advancing the loan not for a worldly gain but for some reward in the hereafter. The borrower has to pay only the principal amount and no extra charges have to be paid on the usage of the capital (Ayub, 2009, and Farooq, 2010).

Wakala: The literal meaning of *Wikala* is to designate some person or institution/organisation as a legal entity to act as a representative of another person. Through *Wikala* contract the bank on behalf of the client or financier operates the trade operations as an agent (*Wakil*) and charges the agency fee from the client. This contract is similar to *Mudharaba* with a significant difference, because in *Mudharaba* the entrepreneur has full control to use the money and gets a share in the profit, whereas in *Wikala* the agent has to operate in concordance with the instructions of the designator (*Muakil*) there is a fee rather than a share in the profit (Ayub, 2009).

Amanah: The literal meaning is trust and in the contemporary Islamic banking practices this contract is used to establish a custodial relationship between the bank and the depositors or investors. The sole purpose of this contract is safe keeping and not any profit raising or money making through any financial instrument. But the Islamic banks utilise these accounts for their benefits but have the liability to return the full amount or part of the money as demanded. The trustee is liable to any loss in case of any negligence or carelessness. The fee of the bank depends upon the nature of the contract (Ayub, 2009)

Wadiah: It is very similar to *Amanah* and the contract is used for safekeeping and it does not generate any income to the owner and the contract varies from case to case and it is the nature of the contract that determines the liability of the asset and the bank's fee for safekeeping (Farooq, 2010).

Tawarruq: The literal meaning is to make liquid money or cash but in the contemporary practices of Islamic banking it is a further development of *Murabaha* and also known as 'reverse *Murabaha*'. Through two different trade transactions the client receives some cash. In the first transaction the client purchases a commodity at credit sale at a price with mark-up and then sells the commodity to another buyer at the cash price (Ayub, 2009).

2.4 Summary

The chapter contains substantial contents from literature review and it is one of the important foundational chapters of the thesis. The chapter provides an analytical and theoretical background of the Islamic banking system. The concept of Islamic banking is much broader and more comprehensive than just a system of banking and finance. It is a banking system which provides services to a faith based community and it is based on the principles of *Shari'ah* which has unique and salient feature of divinity. The law of *Shari'ah* determines the structural frame work of Islamic banking system.

The *Shari'ah* law is a divine law which is based on the revelation and is driven from Quran and *Sunnah* which are considered as the fundamental sources of this law. The secondary sources of *Shari'ah* law are; *Ijma'* (Consensus) and *Qiyas* (Analogy) which are substantially important and they are also equally and frequently used to deduct the laws of *Shari'ah* by Islamic jurists for governing the modern financial issues in the prevailing Islamic banking system. The comparative and analytical study of *Shari'ah* law and English law described the commonalities and disparities between these both laws and the reason behind this comparison

was to find the possibility that to what extent the English law would accommodate the *Shari'ah* law in the UK, as without accommodating *Shari'ah* law to some extent in the UK it was not possible to validate the Islamic banking.

The principles of Islamic finance place great emphasis on the establishment of social justice and fair distribution of income. Any financial, commercial, monetary or trade transaction which is not in alignment with these fundamental principles of *Shari'ah* will be declared as invalidated. The exclusive reason behind the prohibition of interest, obligation of *Zakah*, eradication of *Gharar*, prohibition of *Mayser* and the concept of lawful and fair trade is the achievement of the goal of social justice and fair distribution of wealth in the society. The authenticity of Islamic banking products in terms of *Shari'ah* compliance depends upon these principles that to what extent the Islamic banks are following these principles in their practical operations. In the doctrines of Islamic finance, the most fundamental and distinguished feature is the prohibition of interest. The reason behind this prohibition which has been mentioned in Quran is the evasion of injustice.

The Islamic banking operations are very similar to the conventional banking operations in the sense that both provide the financial and banking services to the customers. But the difference lies where all the operations of Islamic banks have to be in compliance with Islamic *Shari'ah* in principle. The Islamic retail banks offer current accounts, saving accounts and investment accounts but their funding operations are based on the principles *Musharaka*, *Mudharaba*, *Murabaha*, *Ijara*, *Salam* and *Istisna*. The *Musharaka* and *Mudharaba* principles are based on profit and loss sharing accounts where the profit is distributed among the partners on partnership basis and the loss on equity basis. These modes are called 'sharing modes' of finance. The principle of *Murabaha* determines the 'sale modes' of finance where through a trade transaction. In the sale modes the bank buys real goods like precious metals and sells them at agreed mark-up price. The principle of *Ijara* determines 'leasing mode' of finance where an equipment or machine is bought by the bank and provided to the customer on a predetermined rental income.

The current accounts are based on trust basis and they are for safe keeping and they do not generate any income. The saving and special investment accounts are based on *Musharaka* and *Mudharaba* basis and they generate income in the form of profit which is variable but could be estimated and not predetermined. Any predetermined rate of return is invalid and prohibited in *Musharka* and *Mudharaba* operations, but *Murabha* and *Ijara* operations do

allow predetermined rate of return in the form of agreed mark-up and rental income. Based on the predetermined rate of returns, the *Murabaha* and *Ijara* principles of Islamic finance are used more frequently and widely in the funding operation of Islamic banks. The critics of Islamic banks do mention the huge reliance of Islamic banking operations based on those modes of financing which have less risk element and they have a kind of predetermined rate of return.

The Islamic banks, apart from these funding operations provide some other useful banking services and financial products. The most prominent and popular product is Islamic housing finance which is a result of sophisticated financial engineering where two principles; diminishing *Musharaka* and *Ijara* have been used to structure a model of Islamic housing finance. Safe keeping on the principle of *Wadi'ah* and trust and agency services on the principle of *Wakala* are also in operation.

It is more often realised that the Islamic banks provide a small range of products, as it will be discussed later in some of the following chapters. Hopefully, the funding operations and financial products will increase with the passage of time as the Islamic banking industry evolves in the coming years.

Muslim Community in the UK and Social Aspect of Islamic Banking

3.1 Introduction

The economic impact and financial role of banking institutions has been studied enormously and extensively in the literature of economic theory for ages, and undoubtedly it has been established as a fact in many empirical studies that banking institutions have produced a huge impact through financial intermediation on economic growth and development of the economy. But contemporarily, a new development has been witnessed in the recent economic literature where some studies indicated the importance of these financial institutions from social perspective (Roland, 2011, also Asutay, M. 2007 and Guene & Mayo, 2001). The phenomenon of social banking is the outcome of this new development and some research centres were established i.e. Social Business School of Oxford University in 2003 and The Institute of Social Banking in Bocham Germany in 2006 (Roland, 2010). The following sections of this chapter are aimed at analysing the social and economic impact of Islamic banking and finance in the UK and particularly the North West.

Undoubtedly, in this regard, the economic significance of the issue and enormous growth of Islamic banking industry has attracted the traditional economists and bankers to visualise the concept and practice of Islamic banking around the world. The scholars, academics of economic discipline and practitioners of banking industry explored many areas of research in a wide range from financial to managerial aspects of the newly born industry of Islamic banking. But the impact which Islamic banking can produce to help the Western society and particularly the British society (as a focal point of our discussion) in terms of eradicating economic deprivations, removing the barriers for greater and wider community cohesion, alleviating the social and economic discriminations, promoting the sense of being stakeholders in the society and combating the so-called 'Muslim' radicalisation and hostility of youth against the common social values and shared ethical norms of a civilized society in the west still has to be reflected upon from a socio-economic perspective.

The importance of analyzing the impact evaluation from a social perspective becomes manifold in the aftermath of uprising recent extremism and radicalisation in some segments

of Muslim youth population in the context of the present scenario. The analysis requires a detailed study of demographics of the Muslim community in the UK and particularly in the region of North West and their social and economic problems in terms of deprivations and discriminations which lead to economic inequalities and social and economic exclusion. Having discussed the socio-economic problems of the Muslim community in the UK then it can be visualised more easily and clearly how the Islamic banking in the UK can play its role as a 'social banking' to help resolve the political and social issues to achieve the goal of cohesion and integration in a multicultural British society.

3.2 Demographics

The presence of Muslims as a community and Islam as a religion in the European continent and particularly in the UK is not a new phenomenon. Numerically the Muslims' presence is considerable and still very much in progress. It is an undeniable fact that now Islam is the fastest growing religion in the west. Partly, it is due to the immigration factor where a considerable number of Muslims became immigrants in these countries and additionally, because of above the average birth rates among the Muslim community in these countries where in some cases the population growth rate is either very low or in other cases it is negative. To some extent the conversion factor is also contributing to a growing population of Muslims as a considerable number of people from indigenous population are also embracing Islam with their free will and choice (Nye, 2011). So the fact remains that the segment of Muslim population has witnessed a considerable increase within last few decades (Lewis, 1994).

The history of Muslims in the West is a long history which goes back to centuries when Islam and the Muslim community entered the European countries either for some economic reasons or political factors. Both, the economic and political reasons are equally significant in the determination of proportionality and amplitude of Muslim population as a community in Europe.

The Western European countries witnessed an unprecedentedly huge economic development based on the industrial revolution and technological advancement in 18th century (Lewis, 1994). Primarily, the exploration of new markets for selling sophisticatedly manufactured high quality products after the industrial revolution and in addition, the curious search of raw materials for producing highly demanded products lead to vast and major expansion of

European imperialism in African and Asian countries. In a later stage, these colonial ties, newly emerging globalisation and direly needed reconstruction of war-shattered economies of European countries caused a drastic immigration of ethnic minorities from developing world to the European countries. The Turkish ‘guest-workers’ in Germany, Moroccan and Algerian ‘labour force’ in France and Asian and Caribbean ‘factory workers’ and ‘taxi drivers’ in Britain are the examples of post world war phenomenon of immigration to the European countries.

It is extremely difficult to establish the accuracy of exact statistics of Muslim population in Europe. There are numerous significant reasons behind this problem of acquiring the correct statistics and helpfully sufficient information about population. The restricted immigration policy of various European countries is the major cause which leads to a considerable underground or uncounted segment of population. The official statistics and national census of some countries do not reveal the exact population due to some nationalist political pressure which does not support to accommodate a greater segment of actively participating Muslim population in ‘Christian’ Europe. Additionally, the information about religion was not included for long periods of time in the census surveys for the qualified identity of secular Europe (Reppiatt, 2011).

Broadly speaking, the Muslim population in Europe is widely scattered in various countries and the population segments do not show any particular pattern of settlement which can be used as bench mark. Apart from Albania, Bosnia, Macedonia, and Serbia where Muslims have considerable population strength, mostly the Muslim population is regarded as ethnic minorities in European countries. In heavily populated European countries like France (5-6 million, 8-9 % of total population 62.3 million), Germany (3 million, 3.6 % of total population 82.5 million), the UK (app. 2 million, 3 % of total population 60 million), Italy (App. 1 million, 1.4 % of total population 58.4 million), and Spain (1 million, 2.3 % of total population 43.1 million) the population density of Muslims is considerable (BBC, 2005, Source: Total Population; UK Foreign Office, USA State Department, and Geraghty, 2010)

The arrival of Islam in the UK and the presence of Muslims in Britain also has a long historical background. Following the Crusades against Islam, Britain became friendly with some Islamic countries. Queen Elizabeth I, for example, asked the Ottoman Sultan Murad for naval assistance against the Spanish Armada. The first recorded Englishman to become a Muslim was John Nelson, who converted to Islam at some point in the 16th Century (BBC,

Religion and Ethics, 2002).

The first large group of Muslims arrived in the UK 300 years ago, during 18th century who were sailors from Indian subcontinent and Yemen they used to work for East India Trading Company (Fisher, 2006). The Yemeni and earlier Indian sailors were from Aden and Bengal as these were the ports and refueling points for British steamships after the opening of Suez Canal in 1869. Among these Yemeni and Indian Muslims sailors a small segment preferred to stay in the UK without going through the formal immigration procedures. Apparently, these Muslims settled in the port cities coastal towns of Britain like Hull, Liverpool, London, South Shields, and Cardiff etc. The formal recognition of Islam as a religion in the UK and its practising was legalised here in 1812 through a legislation known as Trinitarian Act 1812 (Lewis, 1994).

Among these earlier prominent Muslims who either came from abroad and settled here or converted to Islam from native inhabitants of the UK were Sheikh Dean Mahomet from Bengal who was a captain on the ship of East India Company and settled in London where he founded the first ever Indian restaurant named Hindustani Coffee House in 1810 and a white Briton from Liverpool Williams Henry who later changed his name to Abdullah Quilliam was a revert and founded a Masjid and Islamic learning resource centre in Liverpool in 1889. By profession he was a solicitor but an active writer and essayist who wrote extensively about Islam. His publication 'The Faith of Islam' was translated into thirteen languages and gave him widespread fame across the Muslim world. He converted over 150 people to Islam not only including his family but also some highly educated people like scientists and intellectuals. Based on his preaching activities the Ottoman Emperor Sultan Abdul Hamid II appointed him as '*Sheikh ul Islam*' (BBC, 2007; Lewis, 1994).

As mentioned earlier that industrial countries of Europe witnessed a rapid and tremendous economic growth followed by 18th century's industrial revolution which created millions of jobs and employment opportunities for labour force working in the factories where the black chimneys were raising clouds of smoke persistently. Another significant factor was the wreckage of industrial economies of Europe as an aftermath of two great wars (World War I and II) in the entire continent which took place on different time periods in the first half of twentieth century and continued for several years. These two wars caused not only an immense loss of human lives where millions of people died and which lead to a dire scarcity of labour force but it also shattered the enormously ever-growing industrial economies of

European countries which needed intensive labour for reconstruction and restoration of their economies.

Therefore the second significant phase of immigration to Europe in general and particularly in the UK is known as Post War immigration which was purely economic driven and based on the ever rising demand of human resources to fill the vacancies of qualified and unqualified labour in the industrial economies of Europe which could not be deployed from the labour force available locally. By then the imperial expansionism and colonial ties of European countries with their respective colonies in Africa, Asia and South America played a crucial role to fill the gap of deficit labour supplies.

The post-war immigration to Britain from Caribbean and Asian subcontinent has to be analysed in the same context. The rebuilding of war shattered British economy created a considerable demand for labour that could not be satisfied by the British population alone. The demand was particularly acute in the NHS, public transport, and in many sectors of manufacturing qualified and unqualified labour especially young single men were invited from Caribbean and the Asian subcontinent to fill the vacancies (Shaw, 1988).

According to the 2001 UK National Census there are 1.6 million Muslims in the UK and they constitute 3 percent of the UK population. Nevertheless, Ansari (2004) suggests the actual population of Muslim community is much more than this official figure as a significant number of 'undocumented' immigrants and asylum seeking Muslims remain uncouned in the 2001 Census. The careful estimate reveals that at least two million Muslims are living in the UK. The UK Muslim population is ethnically diverse but the majority (73 per cent) of the population belongs to the Asian ethnic background. Among this major segment of the Muslim population the ethnic diversification constitutes 43 per cent Pakistanis, 16 per cent Bangladeshis, 8 per cent Indians and 6 per cent other Asians. In addition, there are 12 percent 'White' UK or 'White' other, 6 per cent black African Muslims were identified in the 2001 Census. Apart from these figures we have Arab, Afghan, Iranian, Turkish, Kurdish, Kosovar, North African and Somali Muslims which constitute the remaining part of the Muslim population in the UK. Another interesting and more relevant point of this demographic situation is that 46 per cent of the Muslim population is British born or indigenous British Muslims (The UK 2001 Census).

The Muslim population is diversely scattered and located in different parts of the country. Eighty percent of Muslim population lives in five major conurbations. Namely, these are;

Greater London, West Midlands, West Yorkshire, Greater Manchester and East Midlands. Forty percent of Muslim population lives in London. Around two-fifths of Muslims (38%) live in London. After London, the regions with the next biggest share of the Muslim population are the West Midlands (14%), the North West (13%), and Yorkshire and the Humber (12%). Even within these regions, Muslims were highly concentrated spatially. But most of the population is represented in the most deprived urban areas of country (OPI Report, 2005, EUMAP)

3.3 Muslims in the North West

The North West of England consists of various counties like; Cumbria, Cheshire, Lancashire, Merseyside, and Greater Manchester. The county of Cumbria is situated in the extreme North West of England with a very small fraction of Muslim population. Cumbria is one of the country's least ethnically diverse counties, with 96% of the population being indigenous White British, however the larger towns have an ethnic makeup that is closer to national average, and Cumbria's ethnic minority population is increasing twice as fast as England's average (ONS, Census 2001). The focal research area is the North West and our potential areas of interest are those cities and towns in the North West where there is a concentration of Muslim population. Rationally, apart from the cities and towns having a reasonable proportion of the Muslim population situated in the region of NW, we should also consider those surrounding and nearby areas where the demographics show a considerable concentration of Muslim population. Therefore, some areas with significant segments of Muslim population like Yorkshire and Humber, and cities like Bradford (16.08%), Sheffield (4.64%), Leeds (2.99%), Dewsbury (30%) etc, can give some information related to our discussion.

In the North West region, the Muslim population is scattered in various localities. However, some cities and towns like Manchester (17.91% including Salford, Trafford, Stockport, Tameside councils), Blackburn (19.4%), Bolton (7.07%), Burnley (6.58%), Liverpool (1.35%), Oldham (11.06%), Preston (8.24%), Rochdale (9.37%) have more concentration of Muslim population (ONS, Census, 2001). The pattern of settlement was largely a result of demand for labour force for the expanding British industry in the North West region (Peach, Robinson & Smith, 1981).

The Muslim Population in the North West region is 3% of the total population (ONS, Census,

2001). Major concentration of the Muslim population is in those cities where the first generation of Muslims, mostly from Pakistan (43% of total Muslim population) came and settled as a labour force. It also shows the fact that the Muslim Population has some sort of homogeneity; a majority of the Muslim population has the same ethnic background and common traditional and historical heritage.

The genuine and primary question arises that why some of these areas of the country had a greater proportion of Muslim community settled there as compared to another. In other words, how did these patterns of settlement of Muslim populations take a particular shape in the demographic picture of the country? As a matter of fact, the answer is very simple because after the Second World War, the areas with the textile industry and steel industry like Yorkshire, Lancashire and Midlands were facing a severe shortage of labour supply and to keep the wheel turning a huge demand of labour force particularly in the textile industry in the North West attracted the immigrant labour force in these areas. To attract a greater number of workers coming from the Asian countries which have been a colony of the British Empire in the past Work Vouchers scheme was introduced. This voucher scheme indicates that the employers were in dire need of labour which could not be satisfied from the local supply of labour. Therefore, the immigrant Muslim community as a labour force was rationally attracted to these areas and settled here and the sole objective of their immigration was economic motive and nothing else (Shaw, 1988). But now the situation has entirely changed because more than 50 % of the Muslim population are indigenous British citizens who were born in the UK, and these Muslims are second, third and fourth generations of their forefathers and ancestors who merely came to Britain to meet the excessive demand of labour for economic factors

3.4 The Ideological Difference

The Western Civilisation for many centuries has developed a Western way of life which is renowned and distinguished for its secularity, individualism and liberalism (Davis, 2000). The European countries witnessed a long furious controversial debate between the church and state which continued for many centuries in Europe. The struggle of power between the Church and kingdom for the acquisition of ultimate authority in the Roman Empire has a very long history. Since then religion and politics as institutions always remained separate in the Western society. The reason behind this was either a consistent and ongoing confrontation between various denominations of Christianity or it was due to furious controversy between

clergy of the church and philosophers of modern sociology who were presenting modernity or more sophisticatedly 'Enlightenment Movement' (Zaman, 2008; also Chapra, 2009). Therefore individual religious freedom, distinction between church and state and secularism became prominent and distinguished features of Europe or what Davis (2000) has called a 'qualifying feature of European identity' and gradually religion lost the practical significance in the Christian Europe.

Nevertheless, in spite of the absence of any active religious observance in European societies where the societies became a diverse society in terms of culture, ethnicity, and religion, yet the fact remained that the dominant ideology was Christianity as the most significant element of the so-called European heritage (Haller, 1990 quoted by Swatos, 1994; Allen & Macey, 1994). But the recent surveys and studies reveal the fact that a growing number of white people have no religious affiliations (Modood, 1994). In other words the dominant ideology of Christian faith in the West is losing its grip on the society and secularity and faithlessness have a tendency to gain popularity among the native inhabitants of Europe.

On the other hand, Muslims having a strong sense of religious identity visualised this particular cultural identity of Europe based on secularism as a real threat to their religious identity, cultural background, and the lifelong heritage of their ancestors. The secular identity of Europe, distinction between church and state and assimilation in a multicultural western society at the expense of loss of religious and cultural identity seem to be alien to a major portion of Muslim community which constitutes a major segment of ethnic minorities in the West.

Contrary to other communities and their behavioural and cultural identities, the Muslim community either those who settled as immigrants in the West or even those who were inhabitants of non-European countries showed a strong attachment and an uncompromised commitment with their faith and creed around the world. In the UK, for example, to most of them religion is the most fundamental, significant, very central and focal point of self-definition (Modood, 1997). Similarly, in a report published by Home Office in 2001, 'The Home Office Citizenship Survey 2001' it was indicated that for Muslims, religion was a more important aspect of identity than ethnicity. Even though, after the sequence of 9/11, 7/7 and Madrid bombing, the recent empirical studies have shown the fact that the sentiments of hostility among masses in the west against Islam and anti-Muslim feelings or what is called 'Islamophobia' have grown all over the Europe (Amiriaux, 2005) because of some

irresponsible behaviour of the electronic and printed media and alleged distortions about the image of the Muslim community in the west. Rather than concealing their identity as Muslims, however, the Muslim community in the west has been characterised by the intensity of their religious identity. The recent years, after the occurrence of these disastrous and tragic incidents, have witnessed the heightening and deepening of Islamic consciousness in Muslim communities throughout the west. For instance, despite the so-called identity crisis and racial discrimination that Muslim community is facing in the west, still 79 percent of Muslims in a sample of a study carried out recently answered the question that religion was 'very important' to them how they live their life, compared to 42 percent of non-Muslims (Bisin, Patacchini, Verdier, Zenou, 2007). Therefore not much debate is found among sociologists to establish the fact that the Muslim community in the UK and other European countries showed a strong resistance and impenetrable rigidness towards a wider assimilation in the western 'secular culture'. But here one should not overlook the reality that apart from the religious aspect, the participation of the Muslim community in the mainstream social and economic activities and their contribution towards building a prosperous country has been acknowledged by the authorities and even the head of the state (Modood, 1994, Bisin, Patacchini, Verdier, Zenou, 2007).

The social scientists are convinced very strongly in the valid application of Herberg (1960) model for emigrational integration which indicates that after a certain time period the emigrants tend to merge and integrate in the society and loose their cultural identity with the passage of time, but in the case of Muslims in the west the situation apparently seems to be entirely different as the religious association in the second and third generation as compared to their ancestors is much more stronger and vigorous. For this reason the social scientists have been in a dilemma to perceive that the Herberg (1960) model of immigration integration has not remained so significantly valid in the realization of social cohesion in the case of the Muslim community. The same model has been proved perfect and completely valid to evaluate the overwhelming cultural impact of the wider society on any other ethnic minorities of Britain which are non religious or religious but non-Muslim minorities.

3.5 Social and Economic Conditions of Muslims in the UK

The economic and social conditions of the Muslim community as an ethnic minority in the UK also have a great importance in the study of evaluation of Islamic banking in the UK from socio-economic perspective. Undoubtedly, the Muslim community is a big ethnic

minority that shows vigorous and distinctive cultural and religious identity and they constitute the second largest segment of population which follows a certain religion in Britain. As in the following section some social issues of Muslim minority meant to be discussed would be a crucial and preliminary question to define an ethnic minority.

Sociologists have defined the ethnic minority on the basis of various factors like physical appearance, subjective identification, cultural and religious affiliation, and stereotyping and social exclusion (Modood, 1997). For the reason mentioned it is said that ethnicity is a multifaceted phenomenon. Sociologists have mentioned the significance of religion in defining the ethnic minorities as a major reason of cultural identity. Therefore, the Muslim community, in spite of having various ethnic backgrounds still has a common heritage and a shared set of ethical codes and religious norms. It is not their colour, physical appearance or spoken languages which unite them as an ethnic minority; rather it is their faith and religion which makes them distinctive from other minority groups. The universality of Islamic faith is a major reason behind the communal phenomenon of Muslims, which includes a common ideology, perception of global community (*Ummah*), universal brotherhood, identical religious festivals and coincidental religious observance, and participation in local, regional and global congregational practices of worship (*Hajj*). Despite their different colours, several languages, numerous lifestyles, various nationalities, ethnic diversification and even vast mutual differences of their understandings and interpretations of religion, whenever they gather on the name of faith they are one single community around the world.

Apart from few a success stories, mainly as a whole and on average the Muslim community as a minority in the UK is the most deprived community as compared to other ethnic minority communities as 75 percent of them live in the most deprived urban communities (Richardson, 2004). They also live in highly concentrated areas and this concentration of Muslims in the poorest and most deprived areas of cities which are literally slums it indicates the marginalisation of Muslims. It also shows that there is very poor interaction between Muslims and other communities in terms of inter-faith and inter-ethnic dialogue because of some distrust or fear of other communities (Pauly, Jr., 2004). They also face poor housing conditions where most of them 28 percent live in socially rented housing as compared to 20 percent of general population. Overcrowding is another factor which determines the poor housing conditions of Muslims. In this scenario again the percentage of Muslim community living in overcrowded housing is the highest (32 percent) than any other faith groups or ethnic minorities; 22 percent Hindu, 19 percent Sikh and six percent of Christian households

(ONS, *Focus on Religion*, p. 11).

The poor economic conditions produce a further negative impact on the growth and educational attainment of Muslim children who also live in terribly poor and overcrowded housing accommodations (42 percent), with their parents or adults unemployed (35 percent), their houses not centrally heated (12 percent) and their families without having any private vehicle like a car or van (28 percent) (OCIS, *Muslim Housing Experiences*, p.13) These percentages show a discrepancy but their proportionality as compared to other children in the same criterion is extremely exorbitant. The educational achievement obviously remains lower as compared to other pupils. For example, in 2002, 40 percent of Pakistani and 45 percent of Bangladeshi students were able to gain five or more GCSE's at grades A*-C while the same criterion for the whole population of students was 50 percent. But the trend has changed now and the results are getting better for the last few years (DfES, 2003, p.12).

The poor performance in educational achievements results in a low profile of employability and securing job opportunity in the labour market for Muslim community. Also for further education opportunities again the Muslim youth (Pakistani and Bangladeshi) have lower qualifications and more likely to have vocational qualifications. Unemployment rate among Muslims is the highest than any other faith group. According to a previous report published by Open Policy Institute (2005) 'the initial unemployment level amongst full-time Pakistani graduates, at 14 percent is the highest of all other ethnic groups and compares to six percent for white graduates' (OPI, 2005, p.15). Muslims have the lowest employment rate (38 percent) and highest economic inactivity rate (52 percent). More than two-thirds of Muslim women of working age are economically inactive. In addition it is more likely the Muslims even those who are employed are not doing managerial jobs rather they are in low skilled jobs. The report reveals that working conditions and the employment situation of the Muslim community are not very satisfactory and encouraging but contrary to that, these circumstances are fuelling to the deprivations and economic disadvantages of the faith group.

Apart from unemployment, lower educational achievement, economic inactivity which has been discussed before another major concern for the Muslim community is racial discrimination or social inequality. In a multicultural society where diversification of ethnic minorities produces a positive impact on the cultural heritage of the society and enriches the social wealth of the country, the Muslim community in Britain is facing an extreme racial and religious discrimination from wider community and other faith groups. The demand for

protection from religious discrimination has been a key factor for over 20 years. A major portion of Muslim population (1/3rd) feels that the government is doing too little to protect the rights of the people belonging to other faith groups. The Muslim employees working in various public and private sector were feeling that the employers were not taking effective measures to protect them from religious discriminations (O'Beirn, 2000, p.30).

This discrimination against the Muslim community was mostly felt in the spheres of education, employment and criminal justice. The young Muslims who carry a visible marker of being Muslims like a beard in the males and veil in the females were subject to more discrimination. The practicing young Muslim women faced a double discrimination in terms of religion and gender as well (Huang and Kleiner, 2001; Parker-Jenkins, Haw, Irving and Khan, 1999). A survey conducted by BBC in 2004 indicated that for fictitious applicants with same experience and qualifications applying for the same job but with different names, a quarter with English names was able to secure the interview, 13 percent from Black African names and only 9 percent from Muslim names.

In the post 9/11 environment this racial prejudice and religious discrimination has increased in abundance as according to a survey, 80 percent of Muslims reported being subjected to Islamophobia at UK airports or at least they were treated differently (FAIR, 2004, p. 22). A research conducted by Dwyer (2000) indicates that Muslim women feel that they are judged on the basis of being representatives of a stereotype rather than as an individual (Dwyer, 2000). A precedent of being policed subject to stereotyping in 'stop and search' has been shown in a report based on ethnicity shows that between 2001-02 and 2002-03 under the Terrorism Act the number of white people stopped and searched has increased by 118 percent, while the same increase for Black people was 230 percent and Asian people 302 (Home Office, 2004, p. 28).

The above mentioned statistics and factual figures extracted from diversified reports and independent surveys are more than enough to draw the empirical result that the Muslim community in Britain is facing inequalities and discriminations from social and economic perspectives on the grounds of ethnicity and religion. Based on the discussion it is not difficult to conceptualize that how this stereotyping can impact negatively on the development of a human personality. Discriminative behaviour, stereotyping by public authorities and law enforcing agencies lead to a further stratification and social segregation which ultimately splinter the race and community relations of various ethnic minorities and

undermine the social integration practices of the government. As Prof. Wilkinson (2005) has rightly pointed out the evil impacts of inequalities by saying that wider income differences lead to bigger social distances and increased discrimination. They lead to slower social mobility and increased residential segregation of rich and poor. People become less involved in community life, suffer more violence, and are much less likely to trust each other (Wilkinson, 2005).

Sociologists have argued that discriminations and inequalities have a causal relationship with extremism and social and political unrest in the society. The major causes of extremism are numerous but they based on some sort of disadvantage and injustice in the society caused by an internal or external oppressor. The separatists more likely tend to resort towards violence for their demands of freedom (Crenshaw, 1981; Drewermann, 2001). Internally, the uncomfoting of ethnic minorities triggers the political violence when they feel that they are being treated as 'second-class citizens' as in some democratic countries, for example, Jewish state of Israel (Dworkin, 1997) and their basic rights and civic liberties are denied. The unrest becomes more sensitive and vigorous when a minority is attacked or marginalised but no adequate protection from state or law-enforcing agencies is provided (Wilkinson, 1977).

Apart from the reasons mentioned above there is a well-established argument called 'Economic Inequality and Political Conflict Hypothesis' (EI-PC) which signifies the aspects of economic development like equitable distribution, greater employment and economic activity for deprived and disadvantaged segments of the population in a community and how these factors can improve and maintain law and order situation in the society (Lichbach, 1989; Williams, 1994; Murphy, 2001; Kristof, 2002). On the other hand if there is poverty and inequality then it fuels political conflict and extremism.

Apart from economic and political reasons of extremism, under certain circumstances, the wrongful interpretation of religious ideas can also intensify the social behaviours of a community which can further lead to fanaticism, radicalization and extremism. The religious fanaticism has played a vital role in promoting and perpetrating extremist activities around the world (Radu, 2001). Nevertheless, no faith teaches killing the civilians and innocent people regardless of their faith, race and gender but it is a misinterpretation of religious principles and divine verdicts by evil-minded people that provides a prejudiced wrong understanding of justifications of such incidents. Some writers like Michael Radu (2001) have mentioned that Islam and western society are alien to each other because western

democracy, materialism, individualism and social Darwinism have no place in the Muslim society (Radu, 2001). Maybe for this reason, Huntington (1993, 1996) discussed the notion of 'clash of civilizations'.

Contrary to the opinion abovementioned, according to a survey used in a recent study of cultural integration of Muslim immigrants, 6 out of 10 young Muslims from the UK want to live with western values and Islamic values side by side. They attach a great significance to the western civic liberties and human values which are not found anywhere else in the world. The human equality and equal opportunities are also a focal point of interest for these indigenous young Muslims as these values are rare to be found in a society other than the West. It is an encouraging sign from the Muslim youth who are the real future of the Muslim community in the UK. The sense of a responsible citizenship and a commitment to play a positive role in the mainstream British society can nullify all the doubts and worries about assimilation of Muslim immigrants in the British society (Bisin, Patacchini, Verdier, Zenou, 2007).

3.6 A Way Forward; Islamic Banking: Opportunity or Threat

In the previous discussion of demographical and socio-economic conditions of Muslims in the UK, it has been evident that the presence of Muslims in Western Europe is an undeniable fact. The considerable population is increasing with the passage of time and the Muslim community has shown a strong attachment to their religious and cultural identity and also, they have been proved highly resistant in accepting any modes and norms of the western civilization which are contradicting the basic tenets and fundamental principles of their faith. Additionally, Muslims take their faith as a practical and obligatory comprehensive way of life which includes not only the spiritual aspects but also social, political and economic spheres of life (Siddiqui, 2009). They do not differentiate between public and private life or more precisely in other words they have not accepted the well-established western notion of distinction between politics and religion which is a qualifying feature of European identity (Ferrari, 2005). Lastly, the economic deprivation, racial discrimination, and social stratification, marginalisation are other awful aspects of segregated Muslim community in the West.

Taking into account all the conditions and the problems which either the Muslim community is facing in the West in terms of their religious and cultural identity or W. Europe in general

or the UK in particular where some nationalists are considering this community as an internal enemy and threat to the western way of life in terms of individualism, materialism, secularity and social Darwinism, a logical and obvious question arises that the substantial Islamic banking industry is an opportunity or threat (Wilson, 2007) to the western society. The rapidly growing *Shari'ah* based Islamic banking will cause further segregation between Muslims in the West or it will create an environment of competitiveness between interest based, unethical and sometimes exploitative financial institutions and interest-free, asset-based and ethical banking services provided by the newly emerging banking industry.

One view is that the promulgation of any social or economic institution related with the name of Islam or *Shari'ah* in the west will cause what is called 'clash of civilizations' as mentioned by Huntington (1996) and Dan Bilfaskeny (2006) as he says that More people in the political mainstream are arguing that Islam cannot be reconciled with European values (Bilfaskeny, 2006). Of course Islam and Muslims have gained a controversial kind of public visibility in the aftermath of 9/11. This visibility is partly based on the fear of growing Islamism and so-called terrorism in the West (Amiriaux, 2005). This is an extreme on the other side of the spectrum, and undoubtedly, if this view gains popularity in the West then it will cause great social havoc and financial ghetto as the economic deprivations and social discriminations will aggravate a further segregation and radicalization in the society. The democratic environment of the West and civic liberties in a modern welfare and civilized society will not be able to tolerate a state of affairs where ethnic minorities feel hostility from the state or society at large. Depriving the Muslim community from their individual religious freedom and imposing the restrictions on their social and cultural values which are compatible with the principle of democracy and notion of secularity will cause a severe social and political unrest in the society. In some other European countries some social unrest created a disaster like the riots in France (Oct-Nov 2005) where the rioting was widely regarded as a protest against poor housing, racial discrimination and unemployment of up to 40% in the grim housing estates surrounding most big French cities (Campbell, 2007), and also in Denmark (Copenhagen, Oct 2005) and Belgium (Brussels, Oct 2006). The oppression, injustice, denial of basic rights and refusal of civic liberties will never solve the problems of unrest and rioting.

The majority of indigenous Muslim population wants to contribute to the society and play a positive role with the anticipation that the authorities will respect their right of individual freedom of practising faith in a peaceful way. If these Muslim youth envisage a wrong

impression that the state and the authorities are alien to their faith and cultural identity and it is not possible for them to live as a responsible and loyal citizens of British society and being faithful Muslims at the same time then obviously a considerable segment of population will remain inactive economically and more probably the situation will lead to a further disintegration of the society and the agenda of social cohesion will remain only a dream waiting to come true. Perhaps for this reason, the responsible and knowledgeable people of the church and judiciary (Williams, R. 2008; and Lord Philips, 2008) expressed their unanimous view in saying that institutionalization of certain parts of Islamic *Shari'ah* which comply with the supremacy of British legal system and social values would cause a greater consolidation and avoid any further radicalization among the Muslim community.

The alternative view is although a complete contrast to the first one but is a more realistic approach towards the resolving of social problems the society and Muslim community are facing in the West. The holders of this view say that to prevent the Muslim communities from drifting towards 'fundamentalism' it is necessary to consolidate their legal status at the national level and give them the same status which is enjoyed by other religious denominations (Ferrari, S., 2005). It requires a greater cooperation between states and Muslim communities based on the principles of freedom, cooperation and autonomy. If the Muslim community is given an opportunity where they have a religious freedom to the extent that it complies with principles of democracy and secularity of the state then they will feel satisfied and comfortable in the sense that social and political institutions are taking care of their spiritual desires, religious wishes and catering their financial needs of the Muslim community. It is up to the individual states of European countries that they maintain the neutrality and secularity of the state and at the same time The institutionalization of Islamic banking and financial intermediaries will provide a comfortable and peaceful environment where the Muslim community can participate in the economic activities without compromising the basic principles of faith.

Substantially the growing Muslim population also constitutes a large number of citizens, who are not only citizens but they are also economic agents of the society. Nobody can deny the fact that banking institutions and financial intermediaries play a major role in mobilizing the surplus savings in the financial market. Apart from the economic role which involves mobilization of surplus liquidity to increase investment, create employment, reduce inequalities and build a sustained momentum of economic growth, these financial institutions produce a considerable impact on social cohesion as well (Guene Chris. and Mayo, Ed. ,

2001). Therefore the financial needs of Muslim community and their participation in the economic activities cannot be underestimated. Denying the banking based on *Shari'ah* for the Muslim community implies that we are hindering the way of economic development by imposing the restrictions upon a considerable segment of population (20 million in Western Europe) who could play a productive economic role in the economy. The inequalities in economy and disparities in the society will also be aggregated if Muslims' financial needs are not recognized which can further cause social and political unrest in the society. The inequality is detrimental and severe obstacle for economic development as it decreases the economic growth and creation of new wealth. Therefore, Lord JM Keynes (1936) rightly said that social and economic problems cannot be solved as long as inequality exists; he also said that inequality of income is a barrier to the creation of new wealth (Dillard, 1946).

Islamic banking can pave the gap between deprived Muslim minorities and the mainstream population of the country. Islamic housing finance can provide good and affordable shelter to many people who are living in poor housing conditions. Islamic banking can stimulate *Shar'iah* based ethical business which can create job opportunities for many people in the economy.

It will also increase a competition between interest-based and interest free Islamic banks. In the Arabian Gulf countries the competitiveness of these financial institutions has improved the overall efficiency of the capital market (Wilson, 2006) only because of simultaneously operating banking institutions of both kinds; conventional and Islamic banks. The formal Islamic banking services will be monitored by Financial Services Authority and look after the interests of the customers. But if the *Shari'ah* compliant financial services are not provided then there is much more possibility that unregulated and unauthorized 'so-called *Shari'ah* based' financial arrangements may cause monetary loss of the Muslim community which will further aggravate inequality and social and economic turmoil. The faithful Muslims who strictly want to avoid any involvement of interest based dealing with conventional banks can also be given an opportunity to develop their banking habits and as a consequence not only will they be safekeeping their money but also their savings and surplus liquidity could be used for capital formation and investment opportunities.

Islamic banks, principally, will provide financing only for *Shari'ah* compliant, *Halal* and ethical businesses in the economy leading to create an environment for the Muslim community where they could engage themselves in the business activities not compromising

with their faith. Islamic banks will promote Islamic norms and social values and the realization of these values in the society through Islamic banking services will help the wider community understand socio-economic aspects of Islamic faith which will lead to a greater and thorough understanding of Islamic faith and remove the misconceptions and distortions about the 'alien' community. On one hand, it will give confidence to the Muslim community and they will think that they are the stakeholders in the society and on the other the wider community will visualize the Muslim community playing a positive role and contributing to the overall society. As a result the social cohesion will be achieved and radicalization and extremism will be defeated by providing individual religious freedom and recognizing the cultural identity of the Muslim community (Wilson, 2007).

If Islamic banking is facilitated in the UK and a legal financial frame work is designed to cater for the financial needs of the Muslim community then micro-credit finance schemes could be provided which ultimately help effectively in removing financial exclusion (Guene, Chris and Mayo, Ed., 2001).

3.7 Summary

The chapter is an attempt to provide a detailed discussion of socio-economic perspective of Islamic banking in the UK. It highlights the social aspect of Islamic banking. Islamic banking is also called community banking (Ali, 2011) because it is trying to meet the financial needs of Muslim community. The economic role of banking and financial institutions has been studied for a long time in the literature, but the social role which banking and financial institutions can play to build societies which are not only economically prosperous and based on financial inclusion but they are also socially coherent and integrated is a new phenomenon in the literature of banking and finance. In the name of social banking new developments have been witnessed in the last few years.

The customers of Islamic banks are not necessarily from Muslim community because it is an alternative financial system which is available to serve all the communities whether Muslims or non-Muslims. However the general perception about Islamic banking is that it has come into existence to serve the Muslim community and to meet their financial needs and services.

Muslim community is faith based community which follows the faith of Islam in their individual and collective spheres of life and they believe that Islam is a complete and comprehensive way of life which does not leave any aspect or corner in one's life where

some divine injunctions have not been provided. Islamic banking is an integral part of this greater philosophy where divine law in the form of *Shari'ah* principles determines the operational structure of banking and financial system.

The Muslim community in the UK has a considerable segment in the total population. According to the Census 2001 their population is 3% of the total population which will definitely increase in the statistics and figures of Census 2011. The community has a consistently high growth rate in the population. Apart from the birth registrations some other factors like conversion to Islam and Muslim immigrants coming to settle in the UK are major factors behind the continuously increasing population of Muslim community in the UK.

The British Muslim community has some strong affiliation with their faith and besides their British nationality identification they consider Islam as one of the most important factors of their personal identification. The devout Muslims do have understanding that the *Shari'ah* law contains injunctions for their betterment not only in the individual's private affairs of life but also in the life of wider community in terms of social and economic issues and it brings prosperity, peace of mind and spiritual satisfaction at a greater level. Contrarily, they also have a strong feeling that their involvement in those social and economic behaviours which are not in compliance with the law of *Shari'ah* will cause degradation and disgrace.

These perceptions of *Shari'ah* law and its divine legal obligations on one hand and the interest-based conventional banking and finance system on the other made Muslim community to find out alternatives in the banking system which is not only catering the needs of Muslim community in the affairs of banking and finance but it is also compliant with the principles of *Shari'ah*.

The majority of the Muslim community in the UK has many social and economic issues like; poverty, financial exclusion, unemployment, poor housing conditions, low living standards, educational underachievement, deprivations and physical and mental health problems and for the good performance of a considerable segment of the population, these issues need to be addressed wisely so the community can also participate proactively in the economic wellbeing of the society.

Islamic banking is a real opportunity towards financial inclusivity and pluralism from the perspective of social cohesion and multiculturalism in the UK (Wilson, 2007). Although it is based on *Shari'ah* law and it is contradictory to the conventional banking system which is

based on interest, however the social gains apart from economic ones cannot be underestimated. The institutionalization of certain parts of *Shari'ah* law and how it can be accommodated in the British legal system without challenging the supremacy of English common law has been supported by high calibre personalities of the church and judiciary because of its due importance to promote social cohesion in the society.

Islamic Banking and Finance in the UK

4.1 Introduction:

The expansion of the Islamic banking industry is worldwide and the annual growth rate is unprecedented as compared to any other industry elsewhere around the globe. The Western world is no exception in this regard and the banking industry in Europe and America (also Canada) has witnessed a great deal of popularity and considerable acceptability of Islamic banking and financial products. The United Kingdom has a unique and distinctive history in the promotion and support of Islamic banking industry in the West. The mile-stone in this regard is the '2003 Finance Bill' which played a significant role and opened a gateway for high street commercial banks to launch the Islamic financial products. In this bill, the double stamp duty was removed to make Islamic housing finance products more competitive. After this removal of the double stamp duty, high street conventional banks contemplated Islamic mortgages. As a result HSBC launched Amanah Housing Finance in the UK. Of course, at the moment, a number of Islamic banks are in operation in some other Western European countries such as France, Switzerland, and Luxembourg etc. But the number of Islamic banks which are operating in the UK, the provision of Islamic financial products by high street commercial traditional banks, a huge amount of issuance and trade of *Sukuk*, a favourable environment for the growth of industry due to the considerable segment of the Muslim population, a supporting legal and regulatory framework as tax rebates and facilitation of the transactions in estate business have made London as a hub of Islamic finance in the Western world.

It is worth mentioning that the UK is the first country not only in Europe but also in the Western world where financial regulatory authorities (the Financial Services Authority and the Bank of England etc.) granted permission to operate a standalone and full-fledged Islamic bank based in the UK and guaranteed by the central bank of the country. In a report published by the International Financial Services London (IFSL) in 2009, the fact was revealed that the UK had become the eighth largest centre of global Islamic finance, surprisingly ahead of Pakistan and Egypt (Schoon, N. 2009, www.islamicfinance.new).

The major reason behind this fact is the size of HSBC Amanah's finance offering and also that the UK recognized the importance of Islamic finance as part of the overall financial industry at the very early stages.

In the previous foundational chapters, apart from the introduction, some theoretical and practical issues of Islamic banking and finance in general and particularly, the rationale for Islamic banking and finance in the UK with some special reference to socio-economic conditions of Muslims were discussed in detail.

This chapter, in the following sections, deals with the availability of *Shari'ah* compliant financial products and banking services in the capital market of the UK. The focal point of our discussion, in other words, is what is on offer in the UK for Muslim community to meet their financial needs and banking requirements and it is also compatible with their faith.

In this regard an attempt has been made to give a precise review of all the available financial products in the UK either provided by the banking sector financial institutions including both; Islamic and traditional banks, and likewise; personal or business, retail or investment, online and internet banking, and also, any other financial services by non-banking sector like private finance companies etc.

The chapter also focuses on the conditionality factor related with the availability of these products as most of the time these financial services are not openly available and easily accessible to everyone. Rather, there are certain conditions to be met like membership (as in the case of private finance companies), particular type of property; for example only residential or commercial, or amount of down payment or deposit, or lease purchase contracts etc as in the case of commercial banks.

First there is mention of Islamic full-fledged banks and their products, then conventional and traditional interest based banks providing Islamic windows, and lastly the non-banking financial institutions operating Islamic finance in any capacity.

4.2 Fully-fledge Islamic Banks

4.2.1 Islamic Bank of Britain (IBB)

The Islamic Bank of Britain is the first standalone and fully-fledged retail Islamic bank established in the Western world based on *Shari'ah* compliance and authorised and granted permission of FSA (Financial Services Authority), the financial regulatory body in the UK. The Islamic Bank of Britain was inaugurated in September 2004. It is a retail bank providing personal and business banking services to the customers. The head office is based in Birmingham, the biggest city in the Midlands constituting a considerable fragment of Muslim population. Initially the bank had only two branches; one in Birmingham and another in London, but in the last five years the network of branches has expanded and now (in 2009) there are eight branches in the major cities where the Muslim community has a considerable segment of population. In London there are four, two in Birmingham, one in Leicester and one in Manchester. In the annual report of 2008 of the IBB, the statement of the chairman indicates that the bank has shown a steady growth in the year and generated more income and profits and loss decreased up to 15% (Annual Report 2008, IBB). Bradford and Glasgow are the next proposed cities where new branches are due to be launched.

The Islamic Bank of Britain has designed specific financial products to meet the requirements of personal and business banking services for the customers. It also provides finance for personal and business purposes. The Islamic Bank of Britain also provides the facility of online banking. Online banking or more precisely 'internet banking' is very popular in the west now-a-days as many people have access to the internet and through this facility customers can enjoy a wide range of services, for instance, they can transfer the money to different accounts, pay the utility bills, view the transactions, have their statements, give instructions to the bank. It has made banking not only quicker and faster but also easier and securer than before. In the following section we shall focus on the available financial products by the Islamic Bank of Britain.

Personal Banking is related with individual customers and it is not related with business and the following sections describe the financial products available to individual customers as personal banking.

4.2.1.1 Current Account:

The IBB provides the service of basic and simple current accounts to its customers where the customers deposit their money in the bank for day-to-day transactions and also safe keeping. The IBB does not pay any interest for the money deposited and likewise no interest is charged on these accounts. The principle of *Qardh Hasan* is used to maintain these accounts where the deposits of the customers are treated as beneficent loans to the bank which are payable on demand. The cheque book and debit card services through ATM machines are provided to withdraw the cash. It is a *Shari'ah* compliant account which means that the money deposited is guaranteed not to be invested in any venture which is not *Shari'ah* compatible.

There are certain conditions for current accounts to be opened by new customers. Either there must be an initial deposit of £500.00, or an arrangement of direct monthly salary to be paid into the current account, or a standing order of at least £50.00 from any other account to the new current account has to be set up. If any one of these conditions is not fulfilled then it's not possible for a new customer to open a new current account.

It is a commonality among all the banks whether conventional or Islamic, to charge a certain amount of money for some extra services like letters, duplicate statements, copy of the cheques, guaranteed cheques, stop the payments of the cheques, over drafting charges etc. But very surprisingly, the IBB also charges £2.00 per visit from the customers if they use any counter service in any one the branches like withdrawal, depositing or transferring the money. The counter fee for the same services is charged £3.00 per visit if the Lloyds TSB account for IBB is used.

4.2.1.2 Saving Accounts:

The saving accounts at IBB have been designed to earn some profit on the savings of the customers. As the saving accounts are concerned, no interest is paid against any deposit made in such accounts as it happens in the conventional saving accounts. Instead, the IBB takes the responsibility to accept the deposit on the principle of *Mudharaba* where the money is invested in a *Shari'ah* compatible venture and profit is generated which is later shared by the

customer. There are various types of saving accounts provided by the bank.

4.2.1.3 On Demand Saving Account

The only saving account where the customers enjoy the free right of withdrawal of money and share the profit with the bank which is generated by Shari'ah compliant activities. No notice is required to withdraw the money. There is not any limit to the number of withdrawals of money subject to the condition that there is sufficient amount of money in the account. The IBB accepts the deposits on the principle of *Mudharaba* which is used by the bank with the intention of generating profit. The profit is calculated and paid on a monthly basis depending on the amount of money in the account on the closing day of the month.

For opening the account an initial sum of £500.00 or a standing order of £50.00 has to be set up on a monthly basis. The tariff of personal banking applies here.

4.2.1.4 Direct Saving Account

The same *Mudharaba* principle is used in this account. The profit is shared between the bank and the customer. No cash withdrawal is allowed. Instead, the online transfer to any other account is possible. The instruction can be given to transfer the money to a third person's account or a request can be made to the bank to withdraw the money where a cheque is issued by the bank to the customer. The profit rate is a bit higher than on demand saving account. There is a condition of maintaining a minimum balance of £1000.00 in this account. The customer has direct online access to this account.

4.2.1.5 Fixed Term Saving Account

The fixed term saving account lets the customer earn profit over a fixed period of time. The profit rate is comparatively higher. The minimal condition of maintaining a balance of £1000.00 is required. The deposit term could vary from 3,6,12,18, or 24 months. For 3, 6, and 12 months fixed term deposits, the profit is paid on a monthly basis after maturity whereas for 18 and 24 months it is paid quarterly. To open a fixed term deposit account, a saving account essentially has to be opened with IBB.

4.2.1.6 IBB 60 Days Notice Account

This account has specially been designed to provide the saving opportunity for any customers who have a minimum amount of £250.00 to be deposited initially and earn *Shari'ah* compliant return on these savings. The age limit is 16 years old for any person who wants to

open this account. The online access is available and as it is apparent from the name of the account, the money can be withdrawn upon written notice of 60 days. As the time period of notice to be served is quite long for the withdrawal of the money, the expected annual profit rate is higher than the ordinary on demand saving account.

The IBB 60 Days Notice Account is operated under the *Shari'ah* guideline of Islamic principle of *Wakala* where the IBB works as an agent of the depositor and monitors the investment closely to achieve the expected rate of profit which is calculated and accredited to the account on a monthly basis. Although, there is some flexibility of incremental deposits in the account, but on the other hand there are severe and special conditions attached to this account. Any partial or full withdrawal of the money is not permitted unless the 60 days notice is served to the bank. The early withdrawal could be permitted at the entire discretion of the bank in case of exceptional circumstances with the condition that only the minimum expected profit rate would be offered from the range of saving accounts. The IBB is entitled to charge a nominal *Wakala* fee £1.00 and also to keep any profit generated above the expected profit rate.

4.2.1.7 Young Persons Saving Account

This account has been designed for the parents and guardians to save for their children. The account can be opened on the day when the baby is born. The guardian or parent or caretaker is authorised to operate the account. The account can be open with a small amount of only £20.00. The monthly standing order or any incremental deposits by the guardians/parents/caretakers can be used to increase the amount of the saved money. The parent/guardian /caretaker is authorised to withdraw the money until the child reaches the age of 14. When the child reaches the age of 16 the account is switched to the child and the account is considered as a normal saving account.

There is not any notice required to withdraw the money but a limit of £100.00 withdrawal per day is imposed as a special condition. People under the age of 16 qualify for the exemption of paying income tax on profit.

4.2.1.8 Wakala Treasury Deposit Account

This account has been designed for the customers who have surplus savings and they are interested in earning *Halal* profit through *Shari'ah* compliant investment activities. The account is based on the Islamic principle of *Wakala* 'Agency Agreement' where the IBB acts

as an agent on behalf of the customer to monitor closely the investment activities on daily basis. A minimum deposit of £50,000.00 or equivalent to this amount in US dollars or Euros is required to open the account. The IBB accepts the responsibility to achieve an expected rate of profit for a limited number of days. If the bank is not able to secure the agreed expected rate of profit then the agreement will be terminated. In case of termination the deposit plus the profit until the date of termination is returned to the customer.

The account can be opened by a personal customer, business corporate, charities and *Masajid* organizations. The customer is not allowed to terminate the agreement. The profit is paid on maturity and as a gross. The maturity is the stated period of time set up and determined by the bank. The customer opens the current account and then requests the *Wakala* formation and then the bank offers a target profit rate and a fixed time period. By accepting the offer the customers transfer the money to the *Wakala* Treasury Account. The bank is entitled to charge a *Wakala* fee determined by the bank before the commencement of the contract (Normally £1.00) plus any profit above the agreed target profit stated in the *Wakala* contract. The customer is neither entitled to withdraw any partial or full amount before the maturity, nor to add any incremental deposits to the initial *Wakala* transaction. The bank is also not liable for any shortfall if there is any loss or shortfall between expected profit promised in the contract and actual profit paid in the *Wakala* transaction resulting from any misconduct or negligence other than from the bank and it has been proved.

4.2.1.9 Murabaha Treasury Deposit Account

The IBB has designed this account for customers for high net worth individuals and corporate organizations that have £100,000 or more and they want to invest for a fixed period of time in *Shari'ah* compliant investment activities with the intention of earning *Halal* income. The fixed period of time varies from 1-60 months. The account is based on the *Murabaha* principle of Islamic *Shari'ah*. The bank does not pay any interest and the funds are not invested in the investment activities incompatible with *Shari'ah* principles. Instead, the bank accepts the responsibility to ensure and arrange commodity transactions where the customers can invest the funds for an agreed period of time and an agreed rate of profit.

The bank acts as an agent on behalf of the customer in sale and purchase of the commodity and the profit is credited to the account of the customer after the commodity transaction. As the bank acts as an agent, hence a fee is charged for each transaction made on behalf of the customer. The bank is not liable to pay the price of the commodity before the deferred

payment date. The bank is assumed after the contract to be authorised to act and use any discretionary powers on behalf of the customer for the seeking of any financial gain and prevention of any potential loss. The customer is liable to keep the bank indemnified against any losses, damages, claims and expenses in the process of commodity transaction.

The profit rates as technically and more precisely are known as target expected profit rates (in Dec 2009) are different for a wide range of saving accounts. These expected profit rates are competitive and vary from 0.10 % to 3.5% per annum. The lowest profit rate is for the On Demand Saving Account and the highest one is for the Fixed Term Saving Account for the period of 24 months. The profit sharing ratio also varies against various saving accounts but mostly it is 50: 50 or 40:60 in case of 24 months Direct Saving Account where IBB's profit share is 40%. Apart from this profit ratio, before the share of the profit calculated and paid to the customer 1.5 % operating and expenses fee and 20 % profit stabilization reserve contribution. After the deduction of these three fractions: operating and expenses fee, profit stabilization reserve contribution and the profit share of the bank, the remainder is credited to the customer's saving account.

<http://www.islamic-bank.com/personal-banking/savings-products/> Accessed: 28/12/09)

4.2.1.10 Home Purchase Plan

The IBB has launched its Islamic housing finance as Home Purchase Plan (HPP) in 2008. This product is based on a combination of widely accepted and commonly used Islamic financing principles of *Ijara* (leasing) and Diminishing *Musharaka* (reducing partnership). The bank and the customer jointly purchase the residential property for a pre-determined ratio (for example, 80: 20 in Dec. 2009) where the IBB owns 80% and the customer owns 20% share of the property. The customer agrees to purchase the share of the bank through monthly installments spread over a fixed period of time i.e., 30 years. As the time passes the share of the bank keeps on decreasing and contrariwise the customer's share keeps on increasing.

Apart from the capital contribution to purchase the bank's share, the customer also pays rental money to the bank against its share in the property which is reviewed twice a year in March and September and a new rent is charged from April and October. The customer has to be a minimum of 21 or maximum 65 years old and a British citizen or holding a permanent residential permit, 'Indefinite Leave to Remain in the UK'. The value of the property must not be less than £100,000, and the minimum financing is £70,000 and maximum financing by

the bank is £750, 000. The customer has to pay the admin fee (£299) when the application is submitted and affordability criteria are used to assess the income and expenditure of the customer. Any change in the pricing structure could be effective after a given notice of at least 30 days in advance to the customer. A very recent development at IBB is a new product called ‘Buy to Let Home Purchase Plan’ which started in 2012.

4.2.1.11 Commercial Purchase Finance

The commercial purchase finance is very similar financial product like HPP designed by IBB but it is purely for business purposes. Individual customers for personal business or any business organization for the business properties can apply for this product. The product is based on the combination of Diminishing *Musharaka* and *Ijra* principles of Islamic finance. It could be advanced for Purchase, Refinance and Equity Purchase Finance. The finance is available for business properties in England and Wales. The down payment or the share of the customer (deposit) has to be 30% of the value of the property. The minimum finance is £100,000 and the maximum finance is £2.5 million. The term of the contract can be from 1-25 years. The monthly installments include rent plus capital contribution to purchase the share of the bank. The rent is reviewed after every six months in March and September and the lump sum amount can be made before the review date.

The property can be sold to the customer or a third party even during the term of the contract. The repair and tear costs are upon the customers but in exceptional circumstances some refund can be made to the customer in this regard after the decision is made on case-to-case basis by the Shari’ah Supervisory Committee. The Acquisition Payments spread over the fixed period of time will remain unaffected due to any fluctuations in the value of the properties. The customer is the sole beneficiary of any increase in the value of property. Likewise, any negative equity caused by a decrease in the value of the property is also a burden upon the customer.

In case of both HPP and Commercial Property Finance, the Stamp Duty Land Tax, Surveys, Research and Valuation Report fees and also the legal fee for the solicitor both for the customer and also for the bank have to be paid by the customer. Surprisingly, all the costs and fees for conveyance and transference have to be paid by one partner and the repair also by the same partner but the bank not only has the right of ownership but also charges the rent and acquisition payment against its corresponding share.

4.2.1.12 Personal Finance

Personal finance is based on the principle of *Murabaha* from the perspective of Islamic *Shari'ah*. It is an advancement of a loan through a commodity transaction which is called reverse *Murabaha* and in some countries it is called *Twarraq*. The IBB offers £5,000 or more for personal needs. But the conditionality criterion is very hard, it is available to the UK residents, at least 18 years old, having annual income of £35,000 and owns a residential property. The IBB stated in the glossary mentioning *Murabaha* that “Islamic Bank of Britain purchases the goods for the customer, and re-sells them to the customer on a deferred basis, adding an agreed profit margin. The customer then pays the sale price for the goods over instalments, effectively obtaining credit without paying interest” (<http://www.islamic-bank.com/glossary/> Accessed 26/12/09).

All these financial products are for personal banking except the commercial property finance and it was mentioned with Home Purchase Plan because of their huge similarity. In the following sections, the financial products of IBB related with Business banking are discussed briefly.

Business Banking provides the banking services to the business community. In the business banking the same kind of financial products are offered but with a slight difference as these are tailored to cater solely the financial needs of business organizations.

4.2.1.13 Business Current Account

The Business Current Account offered by IBB is based on *Qardh Hasan* principle and has been designed to run the day-to-day financial transactions of any business organization to grow the business without being involved in any interest based transaction. It is a free current business account for the first 18 months where the non-standard services are liable to charge the fee and also if the transactions are over £1 million than the normal business banking charges will be applied. By free current account it means that no charges for paying in or taking out cash, paying in or issuing cheques, unlimited number of deposits and withdrawals and no minimum balance is required to maintain the account. The finance could be offered from £100,000 to £2.5m with the minimum deposit of 30 %. The contract term is from 1 to 25 years. The product is based on *Ijara* and Diminishing *Musharaka*.

4.2.1.14 Business Saving Account

The IBB has offered Business Saving Account based on the principle of *Mudharaba* to generate some Halal income on the surplus savings of business organization. The account can be opened even with a small amount of £20. The money can be deposited an unlimited number of times and withdrawn without any prior notice. The profit is paid monthly based on the daily closing balance of the account. The *Halal* Business Saving Account is comparatively closer to On Demand Saving Account. There is no maturity concept to *Halal* Business Saving Account.

4.2.1.15 Halal Term Deposit Saving Account

Halal Term Deposit Saving Account is also based on *Mudharaba* principle and the deposit is tied with maturity and the money cannot be withdrawn before the maturity. The term could be fixed 3, 6, 12, 18 and 24 months. As the maturity term increases the expected profit rate also becomes higher. Like the Fixed Term Saving Account mentioned earlier the minimum deposit is £5,000 for this account.

4.2.1.16 Murabaha Treasury Deposit Account

In the section of Personal banking this account has been discussed in detail. Briefly speaking is based on *Murabaha* principle of *Shari'ah* where the bank as a 'Wakeel' acts on behalf of the depositor in the trade of stable commodities. The minimum deposit, as in Personal Banking, is £100,000. This saving account is very identical for personal customers and the business customers.

4.2.1.17 Business Finance

The IBB has designed this product solely to meet the needs of business entities. The business in the pace of growth needs to generate some extra cash and raise some funds for the expanded business and investment activities not based on interest. The Business Finance product is available to sole traders, partnerships, *Masajids*, *Madrassa*, and charity organizations. The amount of money can be financed for extended business activities from £1,000 to £20,000. The finance is not available to Limited Companies, Limited Liability Partnerships and Public Limited Companies. Perhaps the reason behind this is the legal nature of limited liability of the business. For further securitization of the amount financed in the case of charities, *Madrassas*, and *Masjids* a guarantor may also be required.

To a great surprise, the product is based on *Murabaha*, instead of *Musharaka* as the bank is meant to have a joint venture in the business but it chose a relatively more secure method of financing where the rate of return is predetermined. The IBB does not want to share the risk by participating in the joint venture, instead, it advances a loan to the business entity through the controversial Reverse *Murabaha* principle or *Tawarruq*. A precious commodity is purchased and sold to the client at a higher deferred price and then the required cash is generated by repurchasing the commodity back at the lower cash price.

4.2.1.18 Commercial Property Finance

It has already been discussed before in the section of personal banking. The details are similar like features and conditions of the product. The only difference to keep in mind is that an individual customer for personal business can apply for this finance or any business organization can also qualify for this financial product. The property to be financed has to be a commercial property and not a residential one.

4.2.1.19 Masjid and Charities

The *Masjid* and Charities Account has specially been designed by the IBB to facilitate the banking services for charitable organizations like *Masajid* and *Madrasah* or other charities. The IBB is the only bank that has developed this account for Muslim and also non-Muslim charities who have great concerns about their banking and the deposits to be used for interest-based transactions and/or unethical investment activities in porn, alcohol, tobacco and weapon industries. The charities can put the money safe and secure and also earn *Halal* profit on the deposits.

The *Masjid* and Charities Account is based on the Islamic financing principle of *Modharaba*. The money is invested in ethical investment activities and the profit is shared between the bank and the charitable organization. The account can be opened with a small amount even only £1 and the profit is calculated and distributed monthly, based on the daily closing balance of the account. There is no limit on the number of times to withdraw the money and also the money can be withdrawn without any prior notice. The account works like a current account as the money can be withdrawn at any time on demand but it also earns a profit like a saving account.

<http://www.islamic-bank.com/business-banking/masjid-charities>

(Accessed: 31/12/09)

4.2.2 European Islamic Investment Bank (EIIB)

The EIIB is a fully *Shari'ah* compliant investment bank based in London the gateway of Islamic finance in the West. The bank was launched in January 2005 and received the authorization from the UK's statutory body, Financial Services Authority (FSA) in March 2006 and started the business in April 2006. The bank has a mission to achieve the excellence in provision of the best *Shari'ah* compliant investment banking products and services in the region.

The products at EIIB are designed to meet the financial needs of investment banking. Through money market and asset management, the EIIB designed special investment financial products in accordance with *Shari'ah* principles for the customers who have £100,000 or over portfolio. EIIB have participated at a senior level in syndicated *Murabaha*, *sukuk* and structured trade finance transactions. At EIIB investment products include:

- Asset management
- Syndicate Financing
- Property Investment Funds
- Leasing Funds
- Structured Product Funds
- Hedge Funds
- Life insurance products through Takaful companies
- UK, European, GCC and Global Equity Funds

All these products are investment financing products for which EIIB works together with other Islamic and conventional financial institutions to create sophisticatedly designed and tailored *Shari'ah* compliant investment products. The EIIB has a vision to structure and distribute *Shari'ah* compliant investment products directly where feasible and/or through other authorized financial intermediaries and private banks in the UK, Europe, Middle East and Asia.

http://www.eiib.co.uk/html/asset_management.asp

(Accessed: 28/01/10)

4.2.3 The Gatehouse Bank

The Gatehouse bank is a newly established fully fledged *Shari'ah* compliant investment bank based in the City of London. The bank was established in May 2007 and received authorization from FSA (Financial Services Authority) in 2008 to work as a fully *Shari'ah* compliant investment bank in the UK. The Gatehouse bank is subsidiary of a well recognized and worldwide leading investment company based in Kuwait, The Securities House KSCC. The bank is anticipating exploring the business opportunities throughout Gulf countries, Europe, North America and South-East Asia.

The Gatehouse Bank is not a retail bank; it is an investment bank which provides various carefully selected financial products approved by their SSC, but all for the sake of investment. The financial business of the bank includes the following activities:

- Capital Markets and Syndicated Financing: At gatehouse Bank it includes arranging and structuring *Sukuks* and management of funds and syndicated financing to Islamic banks.
- Real Estate: It includes provision of leverage and equity for the investment opportunities in real estate business in compliance with *Shari'ah*.
- Institutional Wealth Management: It involves assets-based funds, structured products and investment in infrastructure, private equity, real estate and commodities etc.
- Treasury Business: The bank focuses on maintaining its internal liquidity requirements utilizing the market opportunities and customer's demands as defined by the *Shari'ah* board.
- Shari'ah Advisory Services: It involves provision of *Shari'ah* advisory/consultancy services, audit and compliance, research and training to the highly- valued clients; investors and also other banking and financial institutions operating in *Shari'ah* compliance.
- Placement

The services and products are purely investment structured financial products and assets-based fund management of high net worth clients and other banks.

<http://www.gatehousebank.com/en/our-capabilities>

(Accessed: 28/01/10)

4.2. 4 ABC International Bank Plc UK

Arab Banking Corporation has a long successful working history in the banking industry. The ABC was inaugurated in the year 1980 in Manama, the capital of the Kingdom of Bahrain. Since its inauguration the bank has extended the banking services to many parts of the world and now (in Dec. 2009) the network of branches has expanded to 21 countries of the world, namely in the MENA and GCC, Europe, America and Asia.

ABC Islamic Bank is a subsidiary of the ABC group which is providing *Shari'ah* compliant banking services in various Mena and GCC countries. ABC started Islamic banking services in 1987 through ABC Investment and Services Co, which later in 1998 was converted into a fully fledged Islamic bank known as ABC Islamic Bank. In the UK, the bank has a registered a name as 'ABC International Bank Plc' and based in London. The Islamic banking and *Shari'ah* compliant financial products are being offered through Islamic Asset Management (IAM) including Al-Buraq Islamic personal finance services. ABC IB provides a range of asset-backed investments and financial services. Assets specialisations include leasing, real estate and commodities at ABC IB Islamic Asset Management. In the following section, a brief description of the financial products has been given.

4.2.4.1 Al Buraq Home Finance

Al –Buraq Home Finance plan was introduced in 2005 to provide the opportunity of *Shari'ah* compliant home financing for the Muslim Community in the UK. It is based on the combination of *Shari'ah* principles *Ijara* and *Musharaka*. It is available to the UK residents or those who have 'Indefinite Leave to Remain in the UK. In the past, the minimum value of the property to be financed was £150,000 which has increased now to £500,000 to restrict the availability of the product to new customers. The other restriction is that the maximum available finance is 65% of the value of the property. It implies that the customer has to pay 35% as down payment or deposit to purchase his share of the property.

The eligibility criterion includes the income and expenditure of the customer, age, creditworthiness, past financial affairs, nature of the property and condition. The term of the contract is up to 25 years for the repayment of acquisition capital and the rental money. The additional acquisition payments can also be made but at least one month before the rental review. The *Musharaka* is a joint ownership contract which requires essentially

from the *Shari'ah* perspective to share the proportional risk in the property corresponding to the value of the share. But to a great surprise the insurance of the property against any potential risk has to be done entirely by the customer. Likewise, all other extra costs i.e. stamp duty land tax, valuation reports and surveys, energy performance certificates (EPC) and solicitors' fees not only for customers but also for the bank's solicitor have to be paid by the customer. Similarly, any appreciation or depreciation of the property if it takes place then it will be passed to the customer. The property can be sold at any time after making necessary arrangements to repay back the value of outstanding share of the bank. *Al-Buraq* Home Purchase Plan financing is available not only for residents but also to the business people who are interested to get the financing for 'buy to let' purpose which is normally not available by other providers like IBB or HSBC Amana etc. The maximum number of properties that can be financed under buy to let facility is 10.

4.2.4.2 Al-Buraq Shari'ah Compliant Saving Plan

The second banking product based on the principles of *Shari'ah* and provided by ABC IB IAM (Islamic Asset management) is saving account which was introduced in 2008. To open Al-Buraq saving account at least a minimum deposit of £500 is required essentially and the money has to be deposited at least for five years and the maximum money £100,000 could be deposited. Another interesting point to be noted is that this service was on offer for a limited period of time from 12th June to 5th September 2008. Since then no further issue has been offered yet. No withdrawal of the money is permitted from the account. At the end of the term, the customer will have unlimited potential return in the form of profit.

4.2.5 European Finance House (QIB)

European Finance House is a fully *Shari'ah* compliant Islamic bank based in the UK and it is a subsidiary of Qatar Islamic Bank. Qatar Islamic Bank has over 25 years of experience in developing and implementing *Shari'ah* compliant financial products and has its branches in Europe, Middle East and Asia. The EFH has its vision to be the leading Islamic financial institution in Europe. In terms of services and financial products provided by EFH, mainly these are investment products for High Net Worth clients. In August 2010 a new development took place and EFH was renamed as Qatar Islamic Bank (QIB).

Financial Products at EFH:

As indicated earlier, EFH is a corporate and investment bank and not retail bank, therefore the products are designed especially for high net worth clients, individuals and companies, who want to invest their money in *Shari'ah* compliant investment ventures to generate lawful income from Islamic perspective. The tailored financial products are to meet the needs of the high net worth clients and structured on fundamental principles of *Murabaha*, *Musharaka*, *Mudharaba*, *Ijara*, *Salam* and *Istisna* in the following different areas.

- Development and Placement of Shari'ah compliant real estate funds and equity funds
- Corporate Finance and Advisory Services
- Trade Finance
- Project Finance
- Islamic Financing for institutional and corporate customers
- Wealth Management

<http://www.europeanfinancehouse.net/html/our-products.asp>

(Accessed: 24/02/10)

4.2.6 Bank of London and Middle East (BLME)

BLME is another fully Shari'ah compliant wholesale bank which is based in the UK. In December 2009, the BLME has been awarded for the Institutional Excellence in World Islamic Banking Conference 2009. The bank was incorporated in August 2006 and received the authorisation from FSA in July 2007. The bank is providing a range of Shari'ah compliant funding to a diverse base clients based in the UK, USA and Europe. BLME management claims that the bank is the best capitalised Islamic bank of the UK as the paid capital of the bank is £250 million. BLME maintains a high level of liquidity which helps the bank to provide more flexible and competitive financial solutions in recent times where there is less liquidity in the market. The bank does not provide retailed banking services and financial products for ordinary customers; rather it is an investment and corporate bank which provides services to high net worth clients in terms of wealth management.

Financial Products at BLME

The principal areas of business at the bank, BLME include;

1. Islamic Treasury and finance institutions
2. Corporate Banking
3. Private Banking
4. Investment Banking
5. Investment Management
6. Wealth Management

The monetary assets and the financial needs of high net worth clients are specially taken into account by BLME at private banking division and wealth management department to generate *Halal* income for the customers. The key focal points for these high net worth clients taken by the bank in various investment stages are: wealth creation, wealth preservation and wealth transfer.

<http://www.blmewealth.com/PrivateBanking/ProductsAndServices.html>

(Accessed: 23/02/10)

4.2.7 Ahle United Bank UK

Ahle United Bank UK is a subsidiary of AUB Bahrain and it was formerly known as The United Bank of Kuwait PLC. It is one of the first Islamic housing finance providers in the UK. In fact, it was the first UK based Islamic mortgage provider regulated by the local financial authorities FSA. The United Bank of Kuwait PLC introduced Islamic *Shari'ah* compliant housing finance in 1997. The bank's Islamic housing purchase plan is called *Manzil*. Before the HSBC *Amanh* Housing Finance introduced in 2003, the main provider of Islamic housing finance was the United Bank of Kuwait. More surprisingly, all other finance providers' use diminishing *Musharaka* and *Ijara* principles but the *Manzil* Islamic Home Purchase Plan is based on *Murabaha* and *Ijara*.

4.2.7.1 Manzil Home Purchase Plan

The AUBUK is offering this financial product to help the Muslim community in England and Wales purchase their houses in accordance with Islamic *Shari'ah*. The Home Purchase Plan contract is based on *Ijara* and *Murabaha* principles. For residential properties the

bank purchases the chosen property of the client and sells it on a higher price to receive the price in future over a period of time 5-15 years. The client with monthly installments through acquisition process will purchase the house and own the property. In the meanwhile against the share owned by the bank, the client will give some rental money to the bank. So, the bank makes profit through *Murabaha* sale and *Ijara* rental principles. The financing is provided up to 65% of the value of the property, that implicates the remaining 35% has to be provided by the client. Under *Ijara* arrangement, the repayments are spread over 7.5 to 25 years. The finance is available to UK and also Non-UK residents. The credit checks and income of the applicants are essentially considered to make the decision. The application fee is 1.25% of the value of the property. The basic rent is reviewed on an annual basis in the AUBUK, but in most of the other Islamic housing finance arrangements the rental review is done twice in a year after every six months.

4.2.7.2 Manzil Murabaha Buy-to-Let

In this contractual arrangement of AUBUK, the bank purchases the property to let it for rental money. Again, the potential finance could be up to 65% of the value of property. The remaining 35% has to be provided by the client. The rental money has to be paid on a monthly basis with the option to pay the additional payments and full payment at any time early, without any repayment charge. The term of the contract is between 5-15 years and the repayment instalments are fixed as it is *Murabaha* contract sale and currently it is 7% above the LIBOR (London Inter Bank Offered Rate). The outstanding payment can be made at any time without any early repayment charges. The property is held in the name of the client. The finance is available to UK residents and non-UK residents alike and also to trusts, business organisations and legal corporate entities. The finance is decided up to three times of the annual gross income of the client religious beliefs. The favourable consideration of financial authorities in the UK, like FSA and Bank of England, supported the banks and provided a basic regulatory framework for these banks to operate in the market freely for provision of *Shari'ah* compatible financial products.

4.3 High Street Traditional Banks with Islamic Windows

London has gained a reputation of being a centre of Islamic finance in the western world. The favourable consideration of financial authorities in the UK, like FSA and Bank of England, supported the banks and provided a basic regulatory framework for these banks to operate in the market freely for provision of *Shari'ah* compatible financial products to those who want to put their religious beliefs in the banking.

Chancellor Gordon Brown (May, 2006), then Exchequer and later Prime Minister expressed his views in a press conference saying that Britain would become an international centre of Islamic finance. The Finance Bill 2003 also brought a major change in the banking industry in the UK and paved a way to establish and launch Islamic financial products. In the following section an attempt has been made to introduce those high street traditional banks which are providing *Shari'ah* compliant financial products in the UK.

4.3.1 HSBC Bank UK

HSBC (Hong Kong Shanghai Banking Corporation) is known as 'world's local bank' for its huge number of branches and offices situated and located worldwide. The headquarters of the bank is based in London but the chain of 8,500 branches and offices are stretched in more than 86 countries around the globe in America, Europe, Middle East, Asia Pacific and Africa. Therefore, it is one of the largest financial and banking organisations of the world.

The growing and particular financial needs of Muslim community and the attraction of emerging Islamic banking industry motivated the management of HSBC to incorporate the banking and financial services compatible with the law of *Shari'ah* initially in the Middle East region in 1998. In the UK, HSBC is the first 'high street' bank which took the initiative to introduce financial products compatible with Islamic *Shari'ah* to meet the need of housing finance for Muslim community. As it was mentioned earlier that in global ranking of Islamic financial services and development of Islamic financial industry the UK has achieved 8th position, and primarily it is due to the size of HSBC Amanah's finance offering which secured this global ranking for the UK.

It was 2003 when HSBC officially launched Islamic housing finance in the name of ‘*Amanah* Housing Finance’ to provide an alternative to the traditional interest-based mortgage to the Muslim community in the UK. Now, HSBC *Amanah* has three major centres in the world, Dubai, London and New York. The following section gives a brief description of available Islamic financial products in the UK by HSBC.

4.3.1.1 Amanah Current Account

HSBC’s ‘*Amanah* Bank Account’ is a current account specially designed for the Muslim community in the UK to provide them the best day-to-day banking services in the high street banking where they don’t have to compromise with their deeply held religious principles to achieve financial security and economic prosperity. The account is approved by the SSC of HSBC and it is based on the principle of ‘*Amanah*’ which literally means ‘trust’.

The money is deposited as ‘*amanah*’ in the bank and the bank is liable to safeguard the money and keep it separate from the traditional interest-based deposits and more significantly to ensure that it is not used in any transaction which is not compatible with the law of Islamic *Shari’ah*. No reward is paid on these deposits and a charge is received from the clients for safekeeping of the money and the amount of the money is available to the depositor on demand at any time. There is access to the account 24/7 through internet banking. There is no minimum balance maintenance requirement for this account. All the functionality expectations of a modern current account are enduringly provided like cheque book, standing orders, statements, direct debit, etc. The eligibility and transferring the traditional current account into ‘*Amanah* Bank Account’ is very simple and easy.

4.3.1.2 Amanah Housing Finance

HSBC is one of the first high street conventional banks in the UK which has offered an Islamic housing finance since 2003. The housing finance provided by HSBC is called ‘*Amanah* Housing Finance’ and it is based on widely known and popular principles in the Islamic housing finance market; Diminishing *Musharaka* and *Ijara*. The client and the bank jointly purchase the property and the equity of the bank or units of ownership gradually purchased by the client through extra capital payments on a monthly basis is called capital contribution or acquisition. The rent is also paid against the equity of the bank by the client. The ‘*Amanah* Home Finance’ repayment is reviewed four times a year: 1st of January, 1st of April, 1st of July, 1st October and decreases as the equity of the client increases over a period

of time. The Amanah rate is linked with LIBOR (London Inter Bank Offered Rate) and currently, in Feb 2010, it is 3.00%

The share ratio between the client and the bank has been variable in the past several years based on the lending criteria of the bank and over all economic situation of the economy. Initially when this product was launched in 2003, the minimum required deposit was 10% but as the lending criterion changed during 2008 and 2009 because of global financial crisis and worldwide recession then it was raised up to 40 %. Currently, in Feb 2010, the minimum required deposit is 35% and the maximum available potential finance is 65%.

There is a property criterion for ‘*Amanah* Housing Finance’ that the financing is available for freehold domestic residential and properties or leasehold properties but with unexpired lease of at least 50 years situated only in England and Wales. No ‘buy-to-let or commercial properties are financed in the arrangement of ‘*Amanah* Housing Finance’. The eligibility criterion also has some constraints like age, residential status, time period, for instance, the applicant has to be 18-65, a British national or having a permanent residential status, term of finance is up to 25 years.

The application fee is £275 (currently in Feb 2010) and there are some other fees like; evaluation fee based on the value of the property, settlement fee (currently, £230), administration fee (currently, £40) and statement fee and copy statement fee and copy deed fee (currently, £5 each).

The insurance and the maintenance also have to be borne by the customer and the insurance will be in the joint name of bank and the customer.

There is a pension fund and investment fund at HSBC operated in the compliance of Shari’ah but it is not available to all the customers individually but the big companies and organizations can avail these products for their employees.

<http://www.hsbc.co.uk/1/2/personal/travel-international/hsbc-amanah/amanah-home-finance>

(Accessed: 15/02/10)

4.3.2 NatWest Bank UK

NatWest Bank is a subsidiary of Royal Bank of Scotland Group from 2000. It was established in 1968 by a merger of National Provincial Bank and Westminster Bank. There were more than 200 banks in Great Britain when this rich heritage of banking was overtaken by RBS Group Plc. The bank also started providing *Shari'ah* compliant financial product which is a kind of mortgage but purely for business properties and not housing finance or residential properties. First time the product was launched in November 2008 (www.birminghampost.net) and the CEO of NatWest Business Banking, Paul Lyman expressed his comments saying, "We are committed to meeting the business needs of all customers. By introducing a *Shari'ah*-compliant commercial mortgage, we are demonstrating our commitment to this community, and the broadening of our focus on this market." But, in the future it could be expected that housing finance will also be included among the available products.

4.3.2.1 Islamic Commercial Property Finance

The *Shari'ah* compliant financial product designed by NatWest Bank is an Islamic mortgage especially made to meet the buying needs of commercial properties for the Muslim community. The name of the product is 'Islamic Commercial Property Finance' and it is available only to finance commercial properties and not residential ones. The product is based on the principle of *Murabaha* and not Diminishing *Musharaka* or *Ijara* as most of the available Islamic financial products in the Islamic mortgage industry are based. In *Murabaha* the client takes the pledge to buy the property at a marked-up price with deferred payment stretched over a period of time.

The minimum deposit by the client is £26,000 and there is no specific limit of the finance provided by the bank. It depends upon the value of the property and any maximum amount can be financed provided the buyer has paid at least the minimum deposit. The maximum term of the contract is 25 years and there is no restriction if the client wants to pay the mortgage earlier. But the minimum term of the contract is one year. No interests are charged at any time and there are fixed repayments based on *Murabaha* principle (cost-plus and deferred payment sale).

Certain restrictions and how it works under the principle of *Murabaha* structure is mentioned herewith; the property is selected by the client and it is commercial property and not residential property, also it is a property where the client is already doing some business and it is neither being purchased for property development business or residential purpose for any member of the family, once the deposit has been paid by the client and property is purchased by the bank then it is immediately transferred and sold to the client at deferred higher price, the price is distributed over a period of time of contract in fixed regular monthly payments.

<http://www.natwest.com/business/products/borrowing/longer-term/mortgages/islamic-commercial-property-finance.ashx> (Accessed: 19/02/10)

4.3.3 Lloyds TSB UK

Lloyds TSB is the second high street traditional bank which offered Islamic finance products to the Muslim community in the UK. The bank has over 2000 branches in the UK and nationwide network of ATM machines across the UK. The bank first launched *Shari'ah* compliant Islamic home finance in March 2005 in some limited branches, only 5 in the beginning, in London, Luton and Birmingham (Parker, 2005) all the cities with a considerable segment of Muslim population. Now the network of branches providing Islamic financial products has extended to a larger extent.

4.3.3.1 Islamic Corporate Account

Islamic Corporate Account at Lloyds TSB has been designed for the business people who want to keep a business account based on the principles of *Shari'ah*. The account does not generate any interest as it is prohibited in Islam. The money of the account categorically is not get involved in any interest based transaction and/or any business activity incompatible with the principle of *Shari'ah*. There is not any premium to be paid for this account as in most of the business accounts the banks charge some fee or premium. Similarly no minimum deposit is required for the account. Also, there is no interest free over drafting facility as in the case of traditional business accounts. The services debit card, online banking and access to your money without any prior notice cheque book and paying book are some of the services provided by the bank for this account.

4.3.3.2 Islamic Account

Islamic Account at Lloyds TSB is very useful and flexible account as compared to the Islamic accounts of other banks. There is no restriction to put or maintain a minimum deposit in the account and also no monthly fee is applied. Direct debit facility is provided to the customers and online banking service is also available. Joint accounts are also available for partners and joint account holders. The account is operated based on the terms and conditions of personal banking and any extra conditions introduced by the *Shari'ah* committee of the bank. In case of overlapping or conflict the extra conditions will be applied to the account. The money is guaranteed to be used and kept safe according to the rulings of *Shari'ah* and not involved in any transaction based on interest or any business which is not compatible with *Shari'ah*. In other words it is interest free account and there is conformity of following the *Shari'ah* rulings determined by the *Shari'ah* Committee of the bank.

4.3.3.3 Islamic Student Account

Lloyds TSB Bank has designed Islamic Student Account especially for Muslim students who want to follow the requirements of their faith and provide them an account with benefits and services where their money is managed in a way that reflects their faith. The applicant has to be a student and 18 or over. There is interest free planned overdraft limit up to £1,500 for the account holder. The draft limit is variable in first six months up to £500, from six to nine months £1000, in second and third years of studies up to £1500 and in fourth fifth and sixth years up to £2000 based on terms and conditions and subject status. The Lloyds TSB Visa debit card is issued to use home and abroad. The account holder enjoys many free memberships and discounts from various famous brands like AA, YHA, Amazon, McDonald etc.

4.3.3.4 Islamic Home Finance

Islamic Home Finance at Lloyds TSB is based on the principle *Ijara* and Diminishing *Musharaka* and it works like any other Islamic housing financial product like *Amanah* HF etc. The bank has teamed up with ABC International Bank and Bristol and West Plc to get the finance for the housing financial product. The Bristol and West Mortgages Intermediaries, from September 09 has been closed for new customers (<http://www.bankofirelandmortgages.co.uk/bwintermediary.aspx>) and it has been changed to Bank of Ireland Mortgages.

The Islamic housing finance at Lloyds TSB has been named as *Al-Buraq* Islamic Home Finance and it was launched in March 2005 (Parker, Mushtak, 2005). The client and the bank jointly own the property based on their respective equities. The client also pays rent to the bank against the share of the bank or equity. The monthly rent is based on LIBOR. There is also some capital contribution for purchasing the share of the bank which is technically called acquisition contribution. The interesting point to be noted here is that the people cannot buy any council's house through this mortgage.

http://www.lloydstsb.com/mortgages/islamic_home_finance_faqs.asp

(Accessed: 21/10/09)

4.3.4 United National Bank UK

United National Bank is a UK based traditional commercial bank providing a window of Islamic financial products to Muslim community in the UK. The UNB was formed in November 2001 and it has an established business base and branch network throughout the UK. It is authorised and regulated by Financial Services Authority and registered as a company in the UK and fully adherent to the banking and privacy laws in the UK. The bank has strong links with the Asian subcontinent and the Asian community in the UK providing personal and business banking services in the banking sector. The bank has branches mainly in all major cities of the UK as London, Ilford, Birmingham, Manchester, Glasgow and Bradford where Asian and especially Muslim community has a considerable population.

4.3.4.1 Islamic Mortgages

The United National Bank is the only bank in the UK which provides Islamic housing finance not only in England and Wales but also in the Scotland, whereas all other Islamic housing finance providers like HSBC *Amanah*, IBB, *Al-Buraq* and *Manzil* Home Finance offer Islamic mortgage only in England and Wales and not in the Scotland.

The Islamic mortgage provided by United National Bank is based on *Ijara* and Diminishing *Musharaka* principles of Islamic finance. The minimum amount of deposit or equity of the client is 20% for residential properties and 30% for buy-to-let properties. The applicant has to be between 18-65 years old. UK national or any foreign national with proper and legal UK residential status is eligible to apply for this finance. The UNB will be the registered owner of the property at HM Land Registry initially. The client will pay the deposit and the agreed rental plus acquisition contribution to the bank and by the end of the term the property will be

transferred to the client. The maximum time period for the contract is 25 years. If the applicant is single, then the UNB is willing to finance the equivalent amount of three times the basic income of the applicant. In the case of joint applicants then either three times to the upper level of income and one time to the lower level of income or 2.5 % of the total income.

<http://www.islamicmortgages.co.uk/index>

(Accessed: 28/02/10)

4.3.4.2 Islamic Accounts

Islamic Account at UNB is a current account where no interest is paid or charged and the money is available to the depositor at any time. The money in these accounts is ensured not to be used in any interest based transaction or lending arrangement, rather it is used to advance Islamic housing finance which is based on diminishing ownership and rental structure of Islamic financing modes.

To open the account proof of ID and address is required and there is no minimum amount restriction and this account entitles the holder to use: cheque book, paying direct debit, debit card (ATM) and all the facilities provided by the ordinary current accounts by any bank.

There is no account fee for Islamic account at UNB but in case of the account being overdrawn then a reminder is sent to keep the balance updated and an administration fee is charged for this reason. There are some fees or charges which are applicable in case of special services like a copy of the statement, stopping a payment, replacement of card, etc.

4.3.4.3 Islamic Saving Accounts

The saving accounts available at UNB are various but all are based on *Mudharaba* financial structure where the bank and the client share the profit gained by using the money in a business venture. There is UNB *Mudharaba* 90 Days Notice Account, 3, 6, and 12 month Deposit Accounts. The target profit rates vary from 2.50 % to 2.80 % based on the length of the contract. Under the supervision of the *Shari'ah* board of the bank the accounts have been prepared and being offered as an alternative to profit generating interest bearing saving accounts. The profit is shared between the bank and the depositor according to a predetermined profit ratio but the bank gives guarantee that the share of the bank in the profit will not exceed 45% of the distributable profit in 90 Days Notice Account and 50% in 3 months Deposit Account, 6 months Deposit Account 47.5% and 12 months Deposit Accounts

40% of the distributable profit.

There is also some restriction for minimum deposit for all these accounts, currently (March, 2010) for 90 Days Notice Account it is £10,000 and for 3, 6 and 12 months Deposit Account it is £1,000.

Distributable profit is calculated after deducting the *Mudharib* Cost and Profit Stabilisation Reserve Contribution and Income Tax if applicable. It is again guaranteed by the bank that PSRC will not exceed 20% of the gross earnings of the total depositor's fund. The profit is paid on a monthly basis. *Mudharib* Cost includes the fee and the expenses of the bank as *Mudharib* and, according to the bank, it will not exceed 1.5% and in case of more than the prescribed limit it is paid by the share of the profit of the bank.

<http://www.unbankltd.com/assets/pdf/savings-accounts-pdf/UNB-FAQ-Brochure.pdf>

(Accessed: 01/03/10)

4.3.5 Royal Bank of Scotland

RBS is also a big name in the high street banks in the UK as retail commercial bank. The RBS is one of the subsidiaries of 'Royal Bank of Scotland Group'. Lloyds TSB and NatWest banks are also subsidiaries of this giant banking organisation. The RBS has wide and effective network of nearly 700 branches in the UK.

4.3.5.1 Shari'ah Compliant Commercial Mortgage

The Islamic financial product offered by the bank is a *Shari'ah* compliant commercial mortgage and it has been named as ABT Finance. The *Shari'ah* compliant commercial mortgage is based on the principle of *Murabaha* and **not** on diminishing *Musharaka* or *Ijara* as in most of the cases. The finance is available only for commercial properties but not for new development. The key features of the financial product are given as under.

There is no interest involved in the transaction at any stage. The bank purchases the property and then sells it the customer. The maximum term of the contract is 25 years and the minimum deposit is £26, 000. There is no limit to the financing amount. Once the price with mark-up of the property has been settled then the customer has to pay that price in monthly installments. The contract is based on *Murabaha* principle of Islamic financial modes. The determination of Mark-Up is related with LIBOR and the bank also makes profit through labour market in the UK.

<http://www.rbs.co.uk/corporate/finance/g2/property-finance/shariah-compliant-solutions.ashx>

(Accessed: 28/02/10)

4.4 Non Banking Sector Financial Organizations

In the following sector it is intended to give a small description of those organisations and financial institutions which provide some sort of *Shari'ah* compliant financial products but these are not banks but independent finance companies and they are registered and authorised by the FSA.

4.4.1 Ansar Finance Group

Member based organisation based in Manchester and established in 1994 provides personal finance and housing finance called Ansar Housing Limited (AHL). Only members can apply for their services and each member has to pay £10 on a monthly basis as a contribution to the pool and interest free personal loan is offered £2000 after a year and £4000 after two years. The housing finance is also offered to the members of the group and term is from 5 to 15 years. The AHL and the client both share the ownership of the property and the client pays rental monthly installment to the group and gradually buys the share of the group in the property. The new legislation of the UK government required to get authorisation from FSA therefore AHL declined the housing finance for a certain time period.

<http://www.ansarfinance.com/>

(Accessed: 10/03/10)

4.4.2 First Ethical

First Ethical is also a non banking sector organization providing some financial arrangements based in Bolton, UK. The group was established a couple of years ago.. The company works as an intermediary to provide *Musharaka* based financial products for business communities providing finance form £100,000 to £500,000 to the high net worth clients. It is the slogan of the company that 'where investors meet entrepreneurs' and the company focuses only on UK based businesses.

4.4.3 Al-Amin Financial Services Ltd

Al-Amin Financial Services is another non-banking financial organisation providing Shari'ah compliant financial products. The company was established in 2007 and it is registered and

authorised with FSA and based in Manchester, UK. It is a member based organisation and the services are offered to members only. The financial products are related with personal finance and investment ventures of high profitability and greater efficiency. The real estate development, health care and clinical projects, IT development projects, cash flow investment for running business like restaurants, groceries, take-a-ways and small business. The personal finance is offered to buy the household equipments and appliances.

<http://al-aminfinance.com/>

(Accessed: 10/03/10)

4.4.4 Interest Free Credit Card in the UK

The debit cards are provided by Islamic Bank of Britain, HSBC, and Lloyds TSB to Current Account, *Amanah* Account and Islamic Account holder customers and it is part of the modern banking and easy access to the money of the depositors. But a new development has been seen in the UK very recently that a credit card has also been launched.

Cordoba Financial Group has launched the first *Shariah* compliant MasterCard in Britain. The interest-free Cordoba Gold card is available to UK residents aged 18 and above. “Consumers are tired of hidden charges and unclear small print, and this card is an attractive alternative, providing a convenient and safe payment method that is ideal for everyone,” said CEO Ahmed Suleiman (http://www.islamicfinanceasia.com/2_gr.php).

4.5 IBF in the UK: A Historical, Critical and Comparative Analysis

The United Kingdom has gained the repute of world leader of Islamic banking and finance in the West. It is undeniable fact that Middle East is the centre of Islamic banking and finance in the world but the position of UK in the worldly ranking of top ten countries with the highest assets in the Islamic banking and financial institutions is 8th (Timewell, 2008). In all the western countries including Europe and America, the United Kingdom is the only country where there is one standalone and fully-fledge *Shari’ah* compliant Islamic bank operating and it is regulated and authorised by the central bank (The Bank of England) and other financial regulatory authority (The FSA). The numbers of banking and financial products which are *Shari’ah* compliant have increased in the last few years and the range of these Islamic banking products is comparatively greater than what is available in some other Muslim

countries. There has been a steady and consistent growth in the products of Islamic banking and finance products in last few years (The FSA Report, 2006)

The history of Islamic banking and finance in the UK is not very long. Most of the development in Islamic banking and financial institutions in the UK has taken place in last ten years. However, it is interesting to note that the existence of *Shari'ah* compliant financial transactions and the history of *Shari'ah* compliant financial products are much older and it goes back to the 1980s (The FSA, 2007). Commodity *Murabaha* type transaction was used in the London Metal Exchange in significant volumes to give liquidity to the financial institutions of the Middle East. These products were very simple and uncomplicated in structure and fell outside the scope of financial regulators. Later, some financial institutions from the Middle East and South Asia also started providing some basic *Shari'ah* compliant financial products like current account and home finance but again these financial products did not fall into the regulatory framework of the UK.

According to Kay (2004) the first Islamic bank in the United Kingdom was Al-Baraka bank which was established in early 1980s. The Al-Baraka Investment Company acquired the Hargrave Securities in 1982, which at the time was licensed to accept deposits. The Al-Baraka company became the first Islamic bank in 1982 to accept the deposits of the high net worth customers from the Middle East who were coming to London during summer holidays on regular basis. First time in the United Kingdom, the bank offered investment deposit facilities based on the principle of *Mudharaba* basis (Malik, Malik and Shah, 2011). In a short span of few years from 1983 1991, the demand for the Al-Baraka investment deposits increased from £23 million to £154 million which showed a considerable increasing demand for Islamic banking products in the UK. However, later in 1993 the Al-Baraka bank demised and it was not able to continue the operation for certain reasons and competitiveness with the conventional banks was also one of the major reasons and the demand for Islamic banking was negatively affected because of the demise of the bank.

In 1997, the United Bank of Kuwait entered the UK market with Islamic housing finance product which was based on *Murabaha* principle with instalments of mark-up price. Due to double stamp duty in the structural model of *Murabaha*, the product was not able to attract a sensible segment of the Islamic housing finance market (Malik, Malik and Shah, 2011). These products were not under the complete jurisdiction of regulatory framework of British government, therefore the customers did not have full protection like those who were using

the conventions counterparts. The customers did not have same kind of protection like other customers because the products and their providers were not authorised and regulated by the British regulators. The growth of retail Islamic banking market was very slow in 1990s and early 2000s (The FSA, 2007).

In early 2000s, the Bank of England together with HM Treasury Office established a working group recognizing the potential of retail and wholesale Islamic banking market in the UK, because the FSA and the Bank of England started thinking seriously to facilitate the legal and the financial environment for British financial firms to provide *Shari'ah* compliant Islamic banking and financial products for catering the financial needs of a growing faith based community, the British Muslim community (HM Treasury, 2008). The British authorities did want to facilitate the financial and banking services for those Muslims who were not using the banking products because of prohibition of interest and also there was a strong aspiration to respond to the unprecedentedly growing Islamic banking industry in the global financial market. The city of London being a prominent financial centre of the world could not remain isolated and the British authorities showed great interest to make London as the gateway of Islamic banking and finance in the West.

The FSA, the Bank of England, HM Treasury worked together with one point agenda of promulgation of Islamic banking services in the UK and through the Finance Act 2003, 2005 and 2006 and abolishing the double stamp duty, the British financial authorities really wanted to make sure a level playing field for Islamic and conventional providers of financial and banking products (Malik, Malik and Shah, 2011). Nevertheless, France and Germany have more Muslim populations than the United Kingdom; the role of the British authorities has been more supportive in terms of legislation of Islamic banking services (Wilson, 2007). From 2003 onwards, a considerable number of Islamic banking and financial institutions came into existence to provide *Shari'ah* compliant financial and banking products in the UK market. In addition to the Islamic financial institutions, a large number of conventional financial institutions also came forward with Islamic windows and started offering some sort of retail and wholesale *Shari'ah* compliant financial products.

In 2003, HSBC Amanah, an Islamic window in the high street conventional bank HSBC, started operating of retail Islamic banking products; current account and Islamic housing finance. In September 2004, the Islamic Bank of Britain launched first ever fully-fledge *Shari'ah* compliant retail banking services in the UK under the authorisation of the FSA and

the protection of deposits by the Bank of England. In March 2006, the European Islamic Investment Bank also received the authorisation from the FSA to operate and provide *Shari'ah* compliant investment banking services. In July 2007, the Bank of London and Middle East received authorisation from the FSA to operate and provide corporate and investment banking services in the UK. The Gatehouse Bank was established in May 2007 and received the authorisation from the FSA to operate as a *Shari'ah* compliant investment bank in 2008. The European Finance House, another fully *Shari'ah* compliant bank which was a subsidiary of Qatar Islamic Bank, but from 2010 it is known as Qatar Islamic Bank

(Ref: online resources of relevant banks).

With over \$18 billion *Shari'ah* compliant assets, five fully-fledge *Shari'ah* compliant banks and one of them the only standalone retail Islamic bank in the West, over twenty conventional banks with Islamic windows, one standalone *Shari'ah* compliant insurance provider and at least nine fund managers providing *Shari'ah* compliant investment opportunities, there has been a significant growth in both retail and wholesale Islamic banking and finance products not only in London which has become a hub of Islamic finance in Europe, but also in other national regional centres like Birmingham and Edinburgh (HM Treasury, 2008).

The available *Shari'ah* compliant banking and financial products can be categorised as retail and wholesale banking products. The wholesale market is for high net worth individuals, financial institutions and big organisations and mainly these are investment banks providing *Shari'ah* compliant investment opportunities and project financing. In the retail market, there is one fully-fledge Islamic retail bank, Islamic Bank of Britain and there are other conventional high street banks with Islamic windows like HSBC, Lloyds TSB, RBS, NatWest and United National Bank etc. The retail banking is comparatively more dominant activity because as Wilson (2007) said 'the main source of support for Islamic banking has always come from ordinary Muslims and the development of Islamic finance can be regarded as a populist movement rather than an initiative from governments' (Wilson, 2007, p. 8).

In the United Kingdom, Islamic Bank of Britain, Lloyds TSB, and United National Bank offer Islamic current accounts which is the most simple and basic Islamic banking product. This account is based 'Wakala' or 'Qardh Hasan' principles where the depositor is not entitled to any profit. It is just for safe keeping and providing the basic banking services like transaction deposits, payments through cheques, standing orders, direct debit and more

importantly debit card with automated teller machine access. In conventional banking, the current accounts do not generate any interest or only very little interest, then genuinely the question arises that why there is need of Islamic current account. In case of conventional banks these deposits can be used anywhere in any monetary transaction whether interest based or not interest based, also in permissible or not permissible trade transactions from Islamic perspective. But in case of Islamic current accounts, the bank is obliged to make sure in principle that the deposit is not used in any transaction which is not Shari'ah complaint (Wilson, 2007).

The conventional banks with Islamic windows like HSBC, Lloyds TSB provide Islamic current accounts and there is not any particular restriction of minimum deposits or any charges for using the counter service. But the Islamic Bank of Britain does provide the Islamic current account but with the condition of minimum deposit of £500 or a standing order of £50 pounds on monthly basis from any other bank account. More surprisingly, the Islamic Bank of Britain also charges £2 pounds from the customers who use the counter service to deposit or withdraw cash (www.ibb.com).

The banks providing Shari'ah compliant retail banking services also provide the service of saving accounts. Contrary to the conventional fixed interest based saving accounts, the Islamic savings accounts do generate profits but these profit ratios are variable and they are not predetermined. Mostly the saving or investment accounts are based on *Mudharaba* principle but sometimes the *Murabaha* principle is also used for these accounts as it is mentioned later in case of Islamic Bank of Britain (Ayub, 2009). In the UK, the Islamic Bank of Britain and HSBC Amanah provide a range of saving and investment accounts with variable expected profit rates. The HSBC Amanah offers Islamic investment account to business organisations for their employees to manage their pension funds. This product is not available to the ordinary customers (Ali, Amjid, 2008). The Islamic Bank of Britain offers treasury account to those high net worth customers who have £100,000 or more to invest can place their funds for fixed periods ranging from 1-24 months with higher returns offered for longer time periods. This account is called *Murabha* Treasury Deposit Account and as it is clear from the name it is based on the principle of *Murabha* where the bank is involved in selling and buying the precious metals in London Metal Exchange with the customer being paid a mark-up reflecting the trading profit (Wilson, 2007).

There is a vast range of saving accounts offered by Islamic Bank of Britain, like fixed term saving accounts for 30, 90 and 180 day saving accounts where the depositor earns variable profit increasing based on the long term time periods as 3.25, 3.50 and 3.75 percent respectively. There is a 60 days notice account offered by IBB where the customer has to give a 60 days notice before the withdrawal of the money. For most of the saving accounts of IBB, there is restriction of minimum deposit of £500 or standing order of £50 per month. It is worth mentioning that the above mentioned rates of profit are expected rates of profit and they are not predetermined as under *Mudharaba* structure returns cannot be predetermined. The young person accounts and special charity accounts are also provided by IBB and based on *Mudhrabah* principle the depositors earn profit (www.ibb.com). The United National Bank also provides saving account based on the principle of Mudhraba, where some restriction of minimum deposit and time term withdrawal notice is also applicable. The expected rates of profit vary ranging from 2.50 to 2.89 percent based on the length of time periods 3, 6 and 12 months and 90 days notice account (www.unbankltd.com).

The second major operation of the retail Islamic banks is to advance finance arrangements to the customers. The Islamic banks are obliged to offer personal, business and housing finance to their clients in accordance with *Shari'ah* principles. So far as the *Shari'ah* compliant personal finance is concerned it is offered only by retail Islamic banks, the Islamic Bank of Britain in the UK is the only retail Islamic bank to offer this product. If a client needs cash for personal needs under certain circumstances then Islamic banks do not advance loans on interest or give overdraft limit. The personal finance is based on the principle of *Tawarruq* which is a reverse *Murabaha* arrangement. This *Tawarruq* facility involves an initial *Murabaha* transaction, and a simultaneous reverse transaction, where the client sells the commodity received to a third party which is nominated by the bank, in return for a cash sum being deposited in the current account of the client. The effect is identical to an overdraft or personal loan where the client is repaying on deferred payments basis (Wilson, 2007, Ayub, 2009). The IBB offers personal finance for personal needs up to £5000 to customers who are at least 18 years old and they have at least annual income of £35000 (www.ibb.com).

The *Shari'ah* compliant business finance is also a financial need of the Muslim business community in the UK. But unfortunately like in previous example of personal finance, there is only one provider of *Shari'ah* compliant business finance and it is again Islamic Bank of Britain. The business finance is required by the customers to tackle with problem of shortage of running capital in the business or funding a small or medium term business venture. The

IBB offers Shari'ah compliant business finance but it is not based on *Mudharba* or *Musharaka* principles of finance known as profit and loss sharing modes of Islamic finance, rather it is based on *Murabaha* principle and through reverse *Murabaha* trade transaction, the customers gets hand in cash exactly like *Tawarruq* as mentioned before. The finance is available to sole traders, partnerships and business organisations but not limited companies may be because of the legal structure of limited liability. The amount of money can be financed from £1,000 to £20,000 for extended business activities. The structure of the arrangement shows that the bank does not want to take any risk in the business venture (www.ibb.com).

The most prominent and more common financial product which is the genuine need of Muslim community in the UK is Islamic housing finance because the Muslim community also needs to buy the residential properties like other customers. This product is offered in the market by various financial providers: both Islamic and conventional financial institutions. A considerable segment of the Muslim community entered the housing market only because of the availability of Shari'ah compliant housing finance. There is a competition among the providers of Islamic housing finance in the UK market. Currently, a number of financial institutions are offering Shari'ah compliant housing finance or more commonly known as Islamic mortgages in the UK. Some of these providers do not provide Islamic mortgages in Scotland and they provide only in Wales and England. Most of the providers offer these Islamic mortgages only for residential properties. More commonly, the principle on which the product is based is *Ijara* and Diminishing *Musharaka* (Ayub, 2009) however one provider is offering the Islamic housing finance model based on *Murabaha* basis with deferred instalments arrangement. The terms and conditions, the deposit or the down payment or more technically, from Islamic perspective, the share or equity of the customer, the amount of finance, the rental rate and tenure of the contract all these things vary from one institution to another.

The Islamic Bank of Britain offers 'Home Purchase Plan' based on Diminishing *Musharaka* and *Ijara*. The rental rate is 3.99 % and the customers' share is 20% and the remaining 80% is financed by the bank. The price structure is subject to change after a given notice of 30 days. The age restriction is 21 to 65 and the contract tenure is 30 years and it is available only for British residents (www.ibb.com). HSBC is offering 'Amanah Housing Finance' with the customer's share of 35% and the remaining 65% is financed by the bank. The rental rate is 3% in HSBC Amanah. The age limit is 18-65 and the contract tenure is 25 years. In case of

IBB, if the deposit of the customer is lower and the rental rate is higher as compared to HSBC Amanah where the deposit is higher but the rental rate is lower. The model is structured on the principle of Diminishing *Musharaka* and *Ijara*. The income and the employment status play significant role to determine the application being successful. Banks also charge an administration fee, HSBC charges £275 and IBB charges £299.

Among other providers of Islamic mortgages; the *Ahle* United Bank offers ‘*Manzil* Home Purchase Plan’ and the structure of the model is based *Murabaha* principle. The administration fee is 1.25% of the value of the property and the term tenure is 5-15 years. The equity of the bank and the customer is 65% and 35% respectively at the beginning of the contract. ABC International Bank offers ‘*Al-Buraq* Home Finance which is based on *Musharaka* and *Ijara* principles. The share ratio is very similar to the *Ahle* United Bank and HSBC Amanah i.e. 65% of the bank and 35% of the customer. Surprisingly, the minimum value of the property has to be £500,000 which is an indirect restriction to the availability of the finance to small property buyers. Lloyds TSB also offer the *Al-Buraq* Home finance. The United National Bank also offers Islamic mortgage based on *Musharaka* and *Ijara* principles. The share of the bank is 80% and the share of the customer is 20% (www.islamicmortgages.co.uk). Here it is interesting to note that only the United National Bank offers Islamic mortgage in Scotland and all other providers as HSBC Amanah, IBB, *Manzil* and *Al-Buraq* home finance offer their product only in Wales and England.

There are certain issues related with Islamic housing finance and the customers of Islamic banks raise more often raise concerns about Islamic banking products. Cost effectiveness of the products is a major concern of the customers. The common understanding of the people is that Shari’ah compliant products are more expensive. The administration fee and counter fee must be reconsidered to attract more people towards Islamic banking products. In addition to this all the legal costs, professional fees, insurance etc have to be paid by the customer which makes the cost of the product much higher. It also seems to be controversial from the *Shari’ah* perspective that the bank has equity based partnership but in insurance, legal cost and professional fees does not want to share anything with customer (Dar, & Presley, 2000). Another debatable issue is the benchmark used for calculating a standardised rental unit based on LIBOR. The bank also does not share any gain or loss in the value of the property, it is another debatable issue. Buy to let arrangement also needs to be improved and made more accessible. The true spirit of profit and loss sharing in all the *Musharaka* based transactions has to be materialised. More accessible saving accounts based on *Mudharaba*

and *Murabaha* need to be offered where as the profits are based and calculated on the basis of Libor and the real partnership in the profit still needs to be materialised then it can attract more customers Muslims and also non-Muslims. The business finance needs to be improved and better offered more desirably on the basis of equity participation and joint ownership with profit and loss sharing arrangement. The only available facility is for extended business to meet the shortage of running capital and it is also based on *Murabaha* principle, just like over drafting with repaying the deferred payments. The Shari'ah compliant business finance for Small and Medium Enterprises have to be introduced on urgent basis.

Despite the fact that the existing Islamic banking products do have some issues to be resolved, the customers are not perfectly satisfied, and most of their financial needs still remaining to be catered, what can be visualised from this whole picture is that the considerable growth of Islamic banking products in the short span of last few years suggests that there is great potential for Islamic banking and finance in the retail and wholesale market of the UK. The spread of Islamic banking is not a segregation of Muslim community in the UK as many leading British and European banks are now heavily involved in Islamic banking and finance (Wilson, 2007), therefore, there is certainly a great potential to develop more Shari'ah compliant savings and financing products for Britain's Muslim community.

Also, as it has been mentioned earlier that some leading traditional banks have been involved in Islamic banking and finance in the UK and they are providing some retail Islamic banking products are offering. The presence of Islamic banking and finance in the UK will bring innovation and diversity (FSA, 2007) in the financial environment. Islamic banking and finance is asset based banking so the Islamic banking and finance institutions can bring more stability and resilience in the banking and financial system (Imam & Kpodar, 2010). Pluralism and financial inclusivity (Warsame, 2009) can also be obtained through IBF in the UK.

Research Methodology

5.1 Introduction

This chapter is related to the research methods used in this project. It is the methodology of any research which helps to determine the reliability and validity of the findings of the research project. Therefore it is essentially important to mention precisely what methodology has been used to collect the data from the respondents.

The research methodology chapter comprises of those techniques and procedures which are used in a systematic way to conduct the research with the objective of achieving critical analysis and analytical conclusions. To give some background knowledge to the reader, in this chapter we also want to discuss very briefly about the meaning of research and its various types. The difference also needs to be clarified between research methods and research methodology as it may be confusing to some readers who don't have much background knowledge of research methods and they are also unfamiliar with research methodology.

Eventually, in the following sections an attempt has been made to let the reader know what kind of methods and tools of research have been used for this research project and what was the justification of using these research instruments. Some related technical and practical issues have also been discussed for the general information of the reader.

5.2 Research

Curiosity of knowledge and inquisitiveness of new facts is a part of intrinsic nature of the human mind. Through this intrinsic interest of gaining knowledge, man has discovered a huge amount of useful information in every sphere of life which has made life much easier and smoother. To a layman, in the literal sense, it means a movement from known to unknown or it is an attempt made in search of knowledge based on the inquisitiveness. The Advanced Learner's Dictionary of Current English (Oxford 1952) explains the meaning of research as 'a careful investigation or inquiry especially through search for new facts in any branch of knowledge'. But more technically, the academics have defined the term research in a broader and scientific way. To them, the term research is 'a scientific and systematic search for pertinent information on a specific topic' (Kothari, 2004). In other words we can say that

research is an art of scientific investigation. Redman and Mory (1923) defined research as “a systematized effort to gain new knowledge” (Redman and Mory, 1923, p.10). Research is an academic activity and must be defined in technical terms, Kothari (2004) gave a beautiful and comprehensive view in academic terms, and ‘Research is an original contribution to the existing stock of knowledge making for its advancement. It is the pursuit of truth with the help of study, observation, comparison and experiment’ (Kothari, 2004).

Here it is interesting to note that the research methodology and research methods or tools are different and must not be confused with each other. By research methodology we mean the philosophy or general principle which will guide the research (Dawson, 2002).

In any research project, mainly the five ‘Ws’ technique becomes useful and plays an important role to determine the research methodology.

- What? What we have to research
- Why? What is the purpose of research
- Who? Who are the respondents
- When? When the interviews and surveys are to be conducted
- Where? Where the interviews and surveys are to be conducted

5.2.1 Types of Research

The doctors and research practitioners have classified the phenomenon of research under various types. If the objectives of any research are taken into consideration then we can classify it in the following types:

- Exploratory and Formulative Research: to gain familiarity with a phenomenon
- Descriptive Research: to portray accurately the characteristics of a group
- Diagnostic Research: to determine the frequency of occurrence
- Hypothesis Research: to find the causal relationship

Based on the methods and instruments of research, a further segregation is also referred in the books of research methods and techniques literature.

- Descriptive versus Analytical Research
- Applied versus Fundamental Research
- Quantitative and Qualitative Research
- Conceptual and Empirical Research

It has special significance, for a researcher, in solving various operational and planning problems in a research project to have some basic knowledge about all these concepts of research phenomenon (Kothari, 2004, Jackson, 2009, also Stebbins, 2011).

5.3 Research Project: A Descriptive, Qualitative and Analytical Research

The research project of my dissertation is a combination of various concepts of research, but mainly we can say that it is a descriptive, qualitative and analytical research. It is a descriptive research because it describes a change in the trends of the people which is happening in a particular discipline of their social behaviour that is financial attitude.

Descriptive research as defined by Best as ‘Descriptive research is concerned with conditions and relationships that exist; practices that prevail; beliefs, point of views and attitudes that are held; processes that are going on; effects that are being felt; or trends that are developing. At times, descriptive research is concerned with how, *what is* or *what exists* is related to some preceding event that has influenced or affected a present condition or event’ (Best, 1970).

5.4 Population and Sampling

Population is a large number of objects and more precisely it is called ‘universe’ in a research project, from which the researcher is collecting information. The term population, in the research literature, is defined as any group that is the subject of research interest (Goddord & Melville, 2004). As the population size is always very large and due to some operational problems and practical issues it is always difficult or more often it is impossible to approach the entire universe of the population and collect the data. The research practitioners made it simple and practical for the sake of convenience to make general findings based on a study of only a subgroup or subset of the population.

The subgroup or subset of the population which is representative of the entire population in terms of characteristics and features to give the true and accurate information about the entire

population is called a sample. William G Cochran (1954) has described the features of good sample as; they are economically feasible, they give reasonably precise results, and show within themselves an honest measure of fluctuation on their results (Cochran, 1954). It is essentially significant that the sample must be a representative of the population being studied. Therefore, the sampling technique, as mentioned by J.J. Hartman and J. H. Hedblom (1979), is one of the major components of research development and is essential to understanding research designs and results presented by others. If it is not so then the general observation could not be made about the population in question (Hartman & Hedblom, 1979).

The representativeness of the population in a sample is determined mainly by two factors:

- Sample size
- Bias of the sample

The sample size has to be large enough to represent the population with the consideration that it is easy to manage and administer the research within the sample. Also, a sample is said to be biased if it represents only a specific subgroup of the population or in other words if particular subgroups are over and under represented. To overcome the bias of the sample and representativeness of the population the method of random sampling is used where all the members of the population have equal opportunity to be selected in the sample.

The subject matter of this dissertation is to collect information about the financial attitudes of Muslims in the North West of England and particularly the Greater Manchester region where there is a considerable segment of Muslim population. The entire Muslim community in the focal region is the population of our research project. Then we have to narrow the size of the population to those individuals who are using any banking products whether Islamic or conventional or they are not using any banking products but they can be the potential customers of such banking products.

5.5 Ethics and Research

The ethical issues are really significant to be taken into consideration. The respondents share their personal and sometimes sensitive information, their privacy, their time and their choices. They are vulnerable in a sense that this information can be used against their free will. From ethics perspective they have the right to respond to the questions of the research and at any time they can withdraw from the research project (Cohen, Manion and Morrison:

2007).

The ethical issues were taken into consideration while the data was collected. The permission of the manager, the consent of the customer, the confidentiality of the information, the identity and the vulnerability of the customers' issues were taken into consideration and the information provided was taken and used with extreme confidentiality. Regarding interviews the convenience of participants, the timings, the views, and the permission before using their names and the scripts of the interviews, everything was discussed in prior and then the information was used in the dissertation.

5.6 Research Methods in the Project and their Justification

Based on the objectives of research in my project under the circumstances and availability of resources, the research methods which I have deployed in the dissertation to collect the information of our subject of interest are as follows:

- Survey Questionnaire
- Semi Structured Interview

As mentioned earlier, due to some operational issues and practical problems the researcher decided to rely upon these tools of research. The operational issues are as such; the availability of the participants, willingness to participate in the project, the knowledge of the participants about the subject matter, timing constraints, budget constraints of the researcher. The area of North West was chosen because the researcher is a resident of Greater Manchester area. To collect the data from accessible area within less time scale and using limited resources was the major issue in the research project. If there are sufficient resources available to the researcher then the area of research could be extended and the information collected could also be diversified.

In spite of these convenient methods of research and a small area of population, still the researcher had to struggle to convince the people participate in the research project and share their views. Apart from traveling in the local areas, on the demand of people the survey was made available online and it was also condensed for timing constraint.

5.7 Survey Questionnaire

It is widely used as a technique of collecting data in research literature. There are certain advantages in using this technique which determine the widespread popularity of this method in research methodology. The definition of survey depends and varies with the usage of the technique of survey as a method of research. J. J. Hartman and J. H. Hedblom defined it as, 'it is defined as the systematic collection of data from group (sample) of respondents utilizing a standardized (the same) questionnaire' (Hartman and Hedblom, 1979, p.185).

A questionnaire is defined as a formal, written, set of closed-ended and open-ended questions that are asked from every respondent in the study.

One of the major advantages of this technique is that it can be used in a flexible way. The questionnaire can be administered in person by the research practitioner, it could be sent by post, it could be administered by another person on behalf of the researcher and more economically and feasibly in recent days it could be conducted online either on phone or internet. The other benefit is that the questionnaire is the same and identical, i.e. the questions are the same to the respondents and the accuracy of the data is not affected by variation of the respondents. The questions can be included in different formats like closed ended; yes or no, multiple choice, ranking in agreement to disagreement. The questionnaire survey can also be administered in a group and also on an individual basis. Another benefit is that it ensures the confidentiality and encourages the precise information to be shared in the project as the respondent can participate in the process at his/her convenience and with greater confidence. The issue of ethics is also more observed in this technique as the respondent has the free will to join the process and s/he can refuse to disclose any information or withdraw from sharing the information at any time.

For all these benefits of using survey questionnaire as a technique of data collection, a comprehensive survey questionnaire was designed with the intention to approach the customers of Islamic banks and traditional banks and receive their views and experiences about the enormously growing industry of Islamic banking and finance in the region. A copy of the survey is included in the appendix. There are various types of questions designed in the survey to suit the mental capacity and level of knowledge of the common customers and laymen from the community. There are questions about the banking habits of the people, trends, views and concerns about Islamic banking services and *Shari'ah* compliant financial products. The questions are very practical and interesting as well. Some of the questions, for

example, were like the presence of Islamic banks and/or availability of Islamic banking products in their town, their satisfaction about these products, what kind of concerns and reservations they had about these products, and what other kind of products they want to see to be provided by the Islamic banking and financial institutions.

Initially, as a pilot project, I prepared a survey to approach ten customers of the Islamic Bank of Britain. But to my surprise most of the people complained about the length of the survey. Although, the questions were not very long, most of them were close ended replying yes or no, even then many customers said that it required more time and they were unable to respond to all the questions and it would be better if the content of the survey was condensed. Some people did reply to the long version of the survey and they were the people who had a strong commitment to their faith and eventually they were also concerned about their financial needs and they wanted to support the research project to assert Islamic banking in their community and locality.

So, keeping in mind the time factor of the respondents, I sought advice from my supervisor and then we agreed to condense the survey and the numbering list of the questions. The number of questions were reduced to almost half of the original survey. Then the interest of the people was more encouraging and many people did participate in the survey. Another, problem which I faced was the demand of the people to develop the survey in an online format. This factor was also related with time consumption and convenience of the customers and respondents. To overcome this problem I tried to find an IT expert who could work as a software designer to develop the survey questionnaire in an online format. In the beginning it seemed to be difficult as the cost was a major factor behind this, but then a close friend of mine who was a PhD student in IT agreed to help me and he developed the survey in an online format. Now the survey was condensed in hard copies and also available online for those respondents who preferred to do it online.

In my research, mostly the data has been collected from customers of Islamic banks and members of the Muslim community. Primarily, they are the audience of retail Islamic banking and financial market in the UK. Nevertheless, it is important to say that the availability of Islamic banking products is not confined to Muslim customers as some people think that it is *Shari'ah* compliant so only Muslims are the audience of the Islamic banking market. Now Islamic banking has gained the popularity among non-Muslims as well, as some people they say that it is 'green banking' as it is based on ethical principles and it is also

interest free.

The survey questionnaire was designed to collect the information and views of these customers. The survey was conducted in the Islamic Bank of Britain Manchester branch, from the customers who came in the bank for banking services. Those traditional banks with Islamic windows in the region were also chosen to collect the data from customers. Some of the customers of Islamic banking products are served by these traditional banks like HSBC, Lloyds TSB, United National Bank etc.

The survey was also conducted in various mosques in the Greater Manchester area as the congregations of these places of worship constitute those members of the Muslim community who are genuinely concerned about the compatibility of their financial affairs from the *Shari'ah* perspective. The majority of the customers of Islamic banks are those laissez-faire Muslims who attend the mosques on a regular basis and they are aware of the prohibition of interest and the consequences of dealing with *Riba* in light of the *Shari'ah*.

As mentioned earlier, the survey was also conducted on line through the internet, the survey was developed through software designing and the web page and the link was circulated in the mosques and banks for those customers who felt it was more convenient to participate in the research project through internet. A major observation in the survey conducting exercise was that people were reluctant to reveal their ideas and views about their financial matters either due to the issue of confidentiality or lack of knowledge about the subject matter of Islamic banking.

5.8 Semi Structured Interview

An interview is also very popular and a useful technique for collecting data in any research process. In social sciences, interviewing is regarded as one of the major techniques for collecting social science data. The interview is more popular because it is a flexible tool of data collection, enabling multi-sensory channels to be used: verbal, non-verbal, spoken and heard.

Basically an interview is a conversation between two or more people, a researcher who is the interviewer and the respondent/s who is/are interviewee/s. But it is not an ordinary or routine conversation as we have in our daily lives. It is a conversation with a special purpose behind it to collect information with preselected questions. Based on the purpose for which an interview is conducted, normally interviews are divided as: i) data collection interviews and ii) clinical interviews (Hartman and Hedblom, 1979).

Data collection interviews are purely for the sake of data collection and information from the participants. In social sciences for qualitative research more frequently the data collection interviews technique is used. On the other hand, the clinical interviews are used for diagnostic and therapeutic purposes and mainly used by psychiatrists, psychologists and physicians etc.

Interviews are also classified as open interviews and closed interviews. In open interviews there is a series of questions that has to be answered by the respondents in more detail whereas the closed interviews are where there is not any detail but only tick box questions like yes or no etc.

The Semi Structured interview is usually undertaken in a survey research with a preselected group (sample) based on common characteristics and usually involves random sample and a series of open-ended questions.

The major benefit of a structured interview is that the researcher can ask a variety and a large number of questions in more detail and collect a large amount of information from the respondents at a very nominal cost. The interviewer with interpersonal skills and more experience can dig the information and data from the respondents. When the interviewer is collecting more details of the subject matter and there is a flow of information in open-ended questions then it is also called *the depth interview* with long conversations (Hartman and

Hedblom, 1979).

There are certain disadvantages of interviews as mentioned by Cohen, Manion and Morrison, the interviewer has to be aware that they are expensive in time, they are also open to interviewer bias, they may be inconvenient for respondents, and anonymity may be difficult (Cohen, Manion and Morrison, 2007).

There are certain important factors which have to be kept in mind for conducting the interviews. First of all the purpose of interview has to be very clear and it must be mentioned in the beginning of the interview. The background knowledge of the interviewer and the respondent should also be solid and informative then the interviewer gets the accurate data. The opening remarks, like introduction, purpose of interview and ethical issues, and friendly environment play a positive and crucial role in the process of collecting information.

The interviews which I have conducted in my project are more semi structured, open-ended and in depth interviews. This technique was more economical and useful to collect a large amount of data from skilled and knowledgeable people from the community but at a very nominal cost.

I selected various groups to participate in the collection of data as respondents who were involved prominently in the field of our subject matter. Among the respondents, I invited the community leaders, *Shari'ah* scholars, banking practitioners, non-Muslim faith leaders and some business community leaders.

The generic questions for interview were almost the same for each group, but there were also some specific questions for each group related to their particular speciality and expertise. Through the interviews an attempt was made to collect a comprehensive view of the concerned leaders to discuss the major issues and available solutions of Islamic banking industry in the region. The in-depth interviews of Islamic banking practitioners enabled the researcher to get clearer picture of the ongoing Islamic banking practices available in the UK.

I contacted five *Shari'ah* scholars from various backgrounds (different schools of thoughts) and two of them have responded positively and participated in the research project by sharing their views and ideas. One of them replied that he was not well versed in the subject matter and he did not want to participate as a respondent. One person did not reply and even did not acknowledge the receipt of the email message. One person who sits on the *Shari'ah* board was also contacted but still no reply has been received from him so far.

Two scholars replied and willingly participated in the interviews. First I spoke to them personally on the phone and in person and asked them which mode would be convenient for them to respond i.e. email, telephone or in person. They agreed to accept the questions through email and respond back in the same way. Therefore, I sent them the interview questions through email and received their responses.

Similarly, five banking practitioners were contacted and requested to participate in the research. One of them refused to respond and he said he was not suitable and well-versed in the Islamic banking industry and later I found that he was once a branch manager of a standalone and full-fledged local Islamic bank in Manchester and then he joined another traditional bank from mainstream conventional banks which was also providing a considerable number of Islamic banking products through the Islamic banking window. There was no reply from two banks even after many attempts of contacting through email and telephone. Three banking practitioners agreed to participate and share their views on the subject and all of them were holding decisive and prominent positions in their respective banks. One of them was the Global Manager of HSBC Amana, another one was Head of the Branch Network and Director of Marketing for the Islamic Bank of Britain and the last one was the Director of Marketing and Products of ABC Islamic Bank.

The leaders of other faiths were also contacted and invited to participate in the research project. The purpose behind their participation was to find the views of non-Muslim religious leaders about Islamic banking and involving faith in the banking practices and issue of interest or usury. More interestingly it was aimed to find their views about recognising or accommodating some aspects of *Shari'ah* law in the British legal system.

The experience of collecting information for the research project was interesting but time consuming, sometimes very enthusiastic and exciting and sometimes boring and disappointing. But all these issues are the realities of life and I have learned a lot from this exercise.

I learned a lot from this practical experience and it helped me to know how to work in the field and collect primary data through some basic research instruments. As the respondents were diverse in their level of knowledge about Islamic banking and finance, various groups from different backgrounds were requested to participate in the project. The deployment of survey and structured interview techniques was quite helpful and beneficial

5.9 Research Project and Questionnaire Survey: A Summary

The main questions of research in my project as mentioned in Chapter 1 are as following:

- What are the financial practices of the Muslim community? Also, what are their needs, behaviours, and financial attitudes?
- What is the potential for Islamic banking in the market?
- What sort of Shari'ah compliant financial products is available in the market?
- Is the Muslim community aware of the existing *Shari'ah* compliant financial products?
- Which *Shari'ah* compliant products are not available in the market and Muslim community has a genuine demand for these products?
- To what extent are they using these *Shari'ah* compliant financial products which are available in the market?
- Whether they are satisfied with the *Shari'ah* compliance or they have any doubts?
- How are these *Shari'ah* compliant products impacting on the lives of the Muslim community from a socioeconomic perspective?

These were some focal issues which were meant to be addressed to assert the potential of Islamic banking and its over-all socioeconomic impact.

The survey questionnaire was divided into three parts and it consisted of 26 questions and some questions were divided into further sub-questions. In the survey, Part One was aimed to collect the personal information about individual participants, like faith, gender, age, average annual income, occupation, nationality, ethnicity, town and city. This part of the survey reveals information about social, economic and educational status of the participants. These factors reveal the fact how the employment of Islamic financial and banking products by the Muslim community is affected and determined based on the education, profession, gender and age etc. of the customers of Islamic banks.

In the second part of the survey, Part Two, the focus of the questions is to address the issue of financial needs of the Muslim community and their practices and attitudes towards available Islamic and conventional banking and financial products. It tells us what kind of accounts they are operating, what type of finance they are using for their personal, business and housing financial needs, how much they are satisfied or dissatisfied with existing products, what kind of banking institutions whether Islamic or conventional are providing the available

Shari'ah compliant financial services and products. The competitiveness of the *Shari'ah* compliant products was also addressed in this part of the survey. The basic awareness of the customers and their essential knowledge about Islamic banking and finance were also addressed. The controversial issues like *Tawarruq* based personal finance and *Murabaha* based business finance were also discussed to find the view of the customers and their satisfaction about these products. A prominent question of why Islamic banking and finance system is needed while there are already many conventional banking and financial products available in the market. In fact this part of the survey vigorously focused on the financial needs and practices of Muslims in the region and what is available to them to meet these financial needs.

In the last part of the survey, Part Three, the questions of the survey were designed to gather the information from the customers about the determining factors to choose a banking institution. In other words what kind of issues the customers would take into consideration when they make a decision to open an account in a bank in terms of services and marketing issues. One question is specifically focused on the detailed awareness of *Shari'ah* based financial products in the market, i.e. to what extent the Muslim community is aware *Musharaka*, *Mudharaba*, *Murabaha*, *Ijara* and various types of bank accounts as current, saving, and investment based on these *Shari'ah* principles. The respondents of the survey questionnaires were specifically asked in one question if they need a particular *Shari'ah* compliant financial product which is not available in the market either by Islamic banks or conventional banks. Another significant question was to find out the opinion of the customers about those issues which play a decisive role in using an Islamic bank as *Shari*, compliance, ethical concerns, returns on deposits, dealing with Muslims and language etc. One of the most significant parts of the survey questionnaire is a question that contains a number of statements about Islamic banking and finance in the UK from a social and economic perspective to find the views of the customers about these Islamic banks and their potential performance in bringing a positive change in terms of community cohesion, economic growth, financial inclusion and multicultural peaceful society eliminating the deprivation, poverty, financial exclusion and economic inactivity leading to extreme thinking among the youth.

Analysing the Survey Results

6.1 Introduction

It has already been mentioned in chapter 5 that one of the research tools which was used in the collection of the information and data for my research project was survey questionnaire. This technique is more convenient and beneficial when the researcher is intending to invite a considerable number of participants for a sample of a large population to participate in the research project and share their views. In my project, over 150 people participated in the research and they shared their views and talked about their financial attitudes and behavioural perceptions pertaining to the available and ongoing Islamic banking services and financial products in the UK market in general and the North West in particular. The response of the people was not as encouraging, as the target of the researcher was to involve at least 250 participants in the project to gain a better picture of the market and have more reliable results based on a relatively larger sample size. The questionnaire survey was distributed to a randomly selected sample of the target population which was the Muslim community in the focal area. The arrangement was also made to do the survey online as some people complained of the time constraints. The exact size of the sample is 157 as with all the possible effort, the researcher was able to get the responses from 157 respondents. Again, in the following tables, the total number varies because of the fact that sometime not all the respondents (157) respond to every question of the survey.

In the following sections of this chapter the results of this survey questionnaire have been analysed. The IT revolution has made it very simple, quick and easy to calculate and analyse various types of statistics related with any social and scientific research project. There are numerous statistical software programmes which are used to analyse such data which is related with various sciences in particular social sciences i.e. STATISTICA, SAS, SOCR, RATS, SPSS, PSPP, and STATA etc. I have used STATA a comprehensive statistical package to analyse my results of the survey questionnaire. The reason behind this choice was that it was a comprehensive, simple, advanced and quicker. All the packages have their strengths and weaknesses but I found it more beneficial to use.

A copy of the survey questionnaire has been provided in the appendix for the reader to have a look at what kind of topics has been included in the survey. The content of the survey

questions were designed to collect the information from the customers of Islamic banks and members of the Muslim community about their financial attitudes towards prevalent Islamic banking industry in the North West of England.

The computation of the survey results have been obtained using a statistical and analytical package called STATA. The survey results suggest useful and interesting information. The biasness of the sample must also be kept in mind as the data has been collected mostly from the people who come to the *Masajid* and they have some awareness of Islamic banking products and they are also aware of the consequences of prohibition of *Riba* to some extent. The people who participated were from different backgrounds, various professions and numerous ethnicities but the vast majority of them were Muslims, although some non-Muslims also participated but these participants were not laymen but they were religious leaders of the Christian faith and their views were representing the views of the whole community. These views have been discussed in more details in the next chapter. In this chapter only the survey results have been analysed in a categorical way to reveal the suggestions and indications of the research project

6.2 The Profile Analysis of the Respondents

The personal features and individual characteristics of the respondents play a vital role in the analysis of the survey questionnaire. Robson (2007) called it profile analysis and recommended that prior to the actual analysis of the survey the detailed description of the respondents' characteristics could give a better presentation of the collected data. It is also called descriptive statistical analysis as it is related with the methods of organising, summarising and presenting data in an informative and convenient way (Keller and Warrack, 2002). In the following section a detailed description of the personal features and characteristics of the respondents has been given. As mentioned earlier the researcher has used STATA programme to obtain all these results. It is very sophisticated software like all other statistical programmes where the data is imported to the programme and then just give the commandments and it will produce the results for you.

Table 6.1 Religion of the Respondents

Religion	Freq.	Percent	Cum Freq.
Muslim	153	99.35	99.35
Non-Muslim	1	0.65	100.00
Total	154	100.00	

The table 6.1 shows the faith of the respondents and reveals the fact that 99 percent of the respondents belong to Muslim faith. From a statistical point of view it is a Muslim dominant sample i.e. the sample members belong to Muslim faith and the presence of non-Muslim respondents is nearly nil. Obviously it is an important aspect of the data. The concept of Islamic banking is predominantly related with faith-based community and particularly the Muslim community that is why Islamic banking is also called community banking. The principles of *Shari'ah* are the major determinants of Islamic banking system and prohibition of interest is the most distinguished one out of these principles. The Muslim community following the instructions of Islamic faith like prohibition of interest needs such banking services and financial products which are compatible with such faith-based principles. The survey questionnaire was distributed in *Masajid* and Muslim community centres and the local branch of the Islamic Bank of Britain in Manchester therefore the majority of the respondents were Muslims. The survey questionnaire was also distributed in a local church and two local traditional banks but the response level was very low.

Table 6.2 Gender Frequency of the Respondents

Sex	Freq.	Percent	Cum Freq.
Female	18	12.08	12.08
Male	131	87.92	100.00
Total	149	100.00	

The above table 6.2 shows in the sample there were 18 women and 131 men; it means 12% female and 88% male respondents. The results in the table shows that the sample is

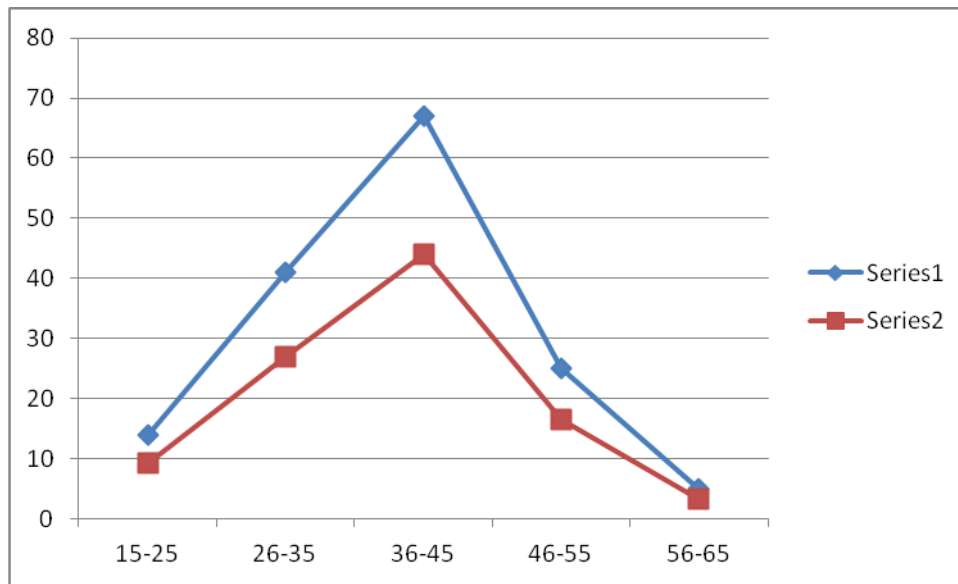
predominantly male oriented. But again it is a fact that in the *Masajid* on Friday mostly Muslim men come and constitute the congregation for Friday prayer. One reason could be that although it is permissible for Muslim women to join the congregation for Friday prayer but it is not an obligation upon them to do so as in the case of Muslim men. Another factor could be that the Muslim community in general for certain reasons is a male oriented community. There could be some cultural factor behind this aspect, because most of the Muslim community in Britain has Indian background, In underdeveloped countries like India and Pakistan there are male dominant societies and the issue of gender discrimination remains a problem for social scientists to resolve.

Table 6.3 Respondents' Age Frequency Distribution

Age	Freq.	Percent	Cum Freq.
15-25	14	9.21	9.21
26-35	41	26.97	36.18
36-45	67	44.08	80.26
46-55	25	16.45	96.71
56-65	5	3.29	100.00
Total	152	100.00	

The age of the respondents has been shown in the table given above. The majority of the people (44 %) who participated in the survey they were from the age group 36-45. The people with age 25 and under and 56 and over are in small number. It means that the people who are interested in the Islamic banking and finance mostly they are young people. Those who are too young and also those who are too old they are not much interested in Islamic banking and finance. This trend of young people was also observed by some practitioners of retail Islamic banking in the UK.

Figure 6.1 Age of Respondents



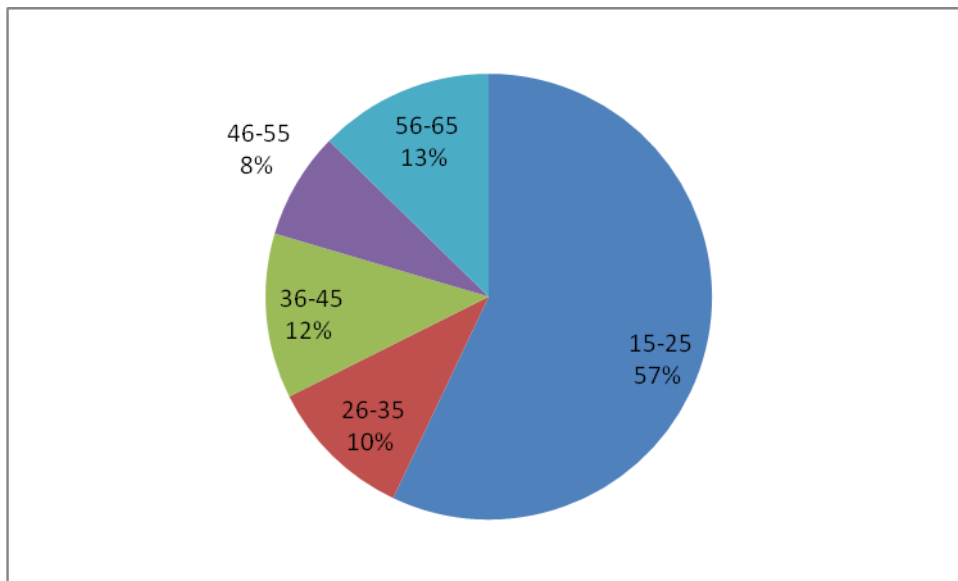
In the diagram, Series 1 shows percentage and Series 2 shows frequency distribution. The table shows that the majority of the respondents are young people. In the sample 44 per cent people belong to the age group 36-45 and 26 per cent belong to the age group 26-35. Altogether 70% people who responded to the questionnaire were young people between 26-45. The results indicate that young people are more interested in responding to the survey results. It is a fact that young people are always more adaptable and curious to accept any good change. The Global Head of HSBC Amanah, Mr Amjid Ali (2011), told me that the majority of the customers of Amanah banking are young, educated and professional people. Later in following sections when the discriminate analysis is carried out then it will also be discussed that how the young people are involved in Islamic finance activities.

Table 6.4 Income Range of the Respondents

Income Range(1,000)	Freq.	Percent	Cum Freq.
15-25	81	57.04	57.04
26-35	15	10.56	67.61
36-45	17	11.97	79.58
46-55	11	7.75	87.32
56-65	18	12.68	100.00
Total	142	100.00	

The table 6.4 shows the income range of the respondents. As it is clear from some other reports and studies that the majority of the Muslim community in the UK is living in poor conditions of housing and job opportunities (British Muslims and the Labour Market, Open Society Institute, 2005). The statistical results indicate that 57 percent of the participants in the survey are those people who have less than £25,000 income per year. The lowest income range group is 15-25 in the survey questionnaire and more than half the people have this lower level of income range which is close to the national average income i.e. £26,000. It is evident that the vast majority of the Muslim community in the UK belongs to a lower income level group. Later it would be helpful to find out if there is any link between low income level and utilising the Islamic banking services and financial products. The survey results suggest the well established fact that the vast majority of the Muslim community in the UK is living in poor economic conditions and the need of *Shari'ah* compliant banking services and financial products gains more importance if this segment of the population has to be provided with financial inclusion to improve their economic conditions. It is another bitter reality that those people who have less resources and they are not in good economic conditions and their income level is low they are more likely to be excluded from the banking services if they want housing and business finance. . The following diagram shows the graphic presentation of the income range of respondents of the questionnaire survey.

Figure 6.2 Income Range of the Respondents (1,000)



The chart of the income range shows the same result as in the table but in a graphic presentation. The majority of the respondents have a low income level in the range of 15-25 thousand pounds and that 57%. Comparatively, the people with the highest income range group 56-65 thousand pounds are only 13% as revealed in the survey results. In between the people have a moderate income range group? As mentioned earlier that the majority people from Muslim community belong to the low income group. The national average income is estimated £26,000 and in our discussion the majority of the people also have £25,000 which is very close to the national average income. The people with low income from Muslim community can get financial help in terms of microfinance and profit and loss sharing banking and financial products.

Table 6.5 Occupation of the Respondents

Occupation	Freq.	Percent	Cum.
Academic/Teaching	45	29.80	29.80
Admin/Management	15	9.93	39.73
Banking/ Finance	3	1.99	41.72
Business	17	11.26	52.98
Engineer	15	9.93	62.91
ICT	6	3.97	66.88
Medical	26	17.22	84.10
Self-employed	21	13.91	98.01
Student	1	0.66	98.67
Unemployed	1	0.66	99.33
Retired	1	0.66	100
Total	151	100	

The table 6.5 shows the occupation of the respondents. It describes their economic and education status which will help to find out the financial needs and the trends of the customers in using the banking services and products. In the sample of our survey, 151 respondents described their occupation. Occupation also tells the educational level of the people, for example if someone is a doctor by profession then he must be a graduate but this is not necessarily always true. In case of the Muslim community, sometimes there are graduate people but they could not get jobs according to their educational level and in their respective fields. For instance there were some taxi drivers but they were graduates as they could not get jobs in their respective professions.

The table shows that the participants were from various backgrounds and different professions. The professional graduates participated more in the survey as there were 45

teachers, 26 doctors, dentists and medical professionals, 15 engineers, 21 self employed, 15 from management and admin, 17 businessmen, 6 ICT personnel, 3 bankers, and 1 student, 1 retired and 1 unemployed etc. There will be some biasness in the results as the majority of the participants belong to the teaching profession and medical profession like doctors, dentists and medical staff.

Most of the participants are graduates and highly educated professionals. But their income range depends upon their jobs and professions. In the previous table we looked at the income range of the people and we observed that the majority of the people although they are graduates but their income level is not more than £25,000 per annum which is close to national average i.e £26,000 in the UK.

Table 6.6 Nationality of the Respondents

Nationality	Freq.	Percent	Cum.
Algerian	1	0.66	0.66
British	137	90.13	90.79
Irish	1	0.66	91.45
Malaysian	1	0.66	92.11
Pakistani	9	5.92	98.03
Tunisian	3	1.97	100
Total	152	100	

The table 6.6 shows the nationality of the respondents. The results of the survey indicate that the majority of the respondents 90 % were British nationals. The research was focused primarily to discuss the financial needs of the British Muslims in the UK and particularly in the North West. Among these there are mainly Muslims from Asian background and more precisely Pakistani British. Although there are some Arab participants but it is evident that one ethnic background is dominant and that is Pakistani ethnicity. It can cause biasness in the data but there is one thing useful that the population is homogeneous. The homogeneity of the population is also a good sign for the credibility of the data. By law all the Muslims are

required to follow the verdicts of *Shari'ah* but there are some devout Muslims with a particular ethnicity and they are more conscious of their religious affairs. The Muslim population in the UK consists of a diverse community with different ethnic backgrounds like Pakistani, Bangladeshi, Indian, Somali, Libyan, Kurdish, and other Arabs and Afghani etc. But more dominantly, as it is shown in the Census of 2001 that the majority of the Muslim population in the UK comes from Pakistani ethnic background. In the following table we can see a more detailed description of the people although they were British national but their ethnicities were numerous.

Table 6.7 Ethnicity of the Respondents

Ethnicity	Freq.	Percent	Cum Freq.
Asian	17	11.26	11.26
Arab	11	7.28	18.54
Bangladeshi	12	7.95	26.49
Black/African	3	1.99	28.48
Caribbean/White	4	2.65	31.13
Indian	2	1.32	32.45
Kashmiri	2	1.32	33.77
Malay	1	0.66	34.43
Somali	2	1.32	35.75
Sri Lankan	1	0.66	36.42
Pakistani	96	63.58	100
Total	151	100	

In the table 6.7 we can see that a number of ethnicities have participated in the questionnaire survey. Although, one group is dominant in the data, but still there are people from various backgrounds. It has already been mentioned previously while discussing the Table 6.6 with the reference of Census 2001 that the majority of the British Muslims come from Pakistani background. The table given above reiterates the same reality that majority of the Muslims in the UK are from Pakistani background. According to the table, it is clear that the majority of the people (Approx 64%) who were respondents in the research survey they were from Pakistani background. In the sample 151 respondents described their ethnicities and 96 out of them had Pakistani ethnicity. Another 17 people described their ethnicity to be Asian; again more probably they could be Pakistani, Bangladeshi or Indian. Another considerable group of 12 respondents described their ethnicity to be Bangladeshi. According to the Census 2001, the second significant portion of Muslim population in the UK is from Bangladesh. Another group of 11 people described their ethnicity to be Arab. So in the respondents major groups of ethnicities were Pakistani, Asian, Bangladeshi and Arab. There were a small number of people from Somali, White, Black African, White and Black Caribbean, Kashmiri and Malay and Indian Muslims who participated in the survey and shared their views. The data shows that the Muslim community from different ethnicities joined the research project.

6.3 Banking Practices and Financial Needs of the Muslim Community

Having described the individual characteristics of the respondents of the survey, now in the following section a statistical analysis of the survey results is being given in terms of banking needs and practices of the people. In this section, the objective is to analyse the information collected in the survey in terms of banking habits and financial needs and attitudes of the customers. For example, we are interested in finding out the number of people who use the bank accounts, those who use current accounts and saving accounts, those who have any kind of financing whether housing, personal or business finance. We are also interested in exploring their other financial needs and what other financial products they are looking for and they are not available on the market. Primarily the headcounts and percentages of the customers of Islamic and conventional banks in different aspects and then later through cross tabulation we find the significant relationship between various variables for the sake of interpretation and inferential propositions.

Table 6.8 Bank Accounts of the Respondents

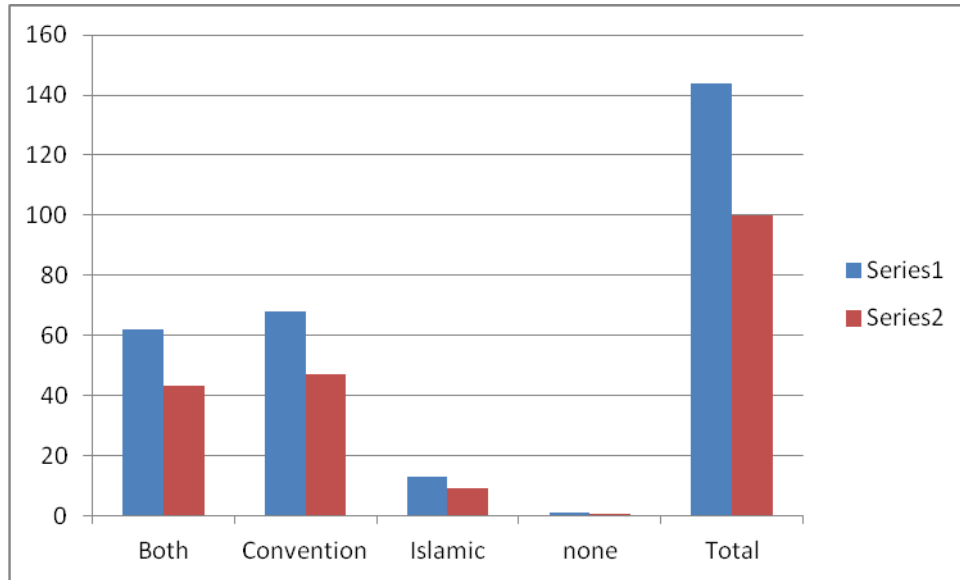
Type of Accounts	Freq.	Percent	Cum.
Both	62	43.06	43.06
Convention	68	47.22	90.28
Islamic	13	9.03	99.31
none	1	0.69	100.00
Total	144	100.00	

The table 6.8 shows the headcount and percentage of those people who participated in the survey and they have different types of accounts. Out of 144 there is one person who does not have any account in the Bank whether conventional or Islamic. Although it seems to be difficult and strange living in the 21st century in Britain, but it is a reality that still there are people who don't have any bank accounts and they live in one of the most developed countries from an economic perspective and financially a very highly sophisticated economy of the world. That is called financial exclusion in the modern economic literature and it has gained a considerable attention on part of the social scientists and policy makers who are intending to achieve community cohesion and social integrity in the cosmopolitan environment of the Western World (Mitton, 2008).

The majority of the respondents revealed that they had conventional bank accounts, 68 out of 144 that means 47 percent have purely and only conventional accounts. It shows that still the potential of Islamic banking has not been fully achieved. There are 13 people who have only Islamic accounts which is 9% of the total sample size. But more surprisingly the table reveals that there are a considerable number of people who have both types of accounts; conventional and Islamic which is 43% of the total sample size. If we combine those who have purely Islamic accounts (9%) and those who have both Islamic and conventional accounts then the percentage is slightly higher, 52% which is greater than 47% who have only conventional accounts. It is evident from the results that although the potential of Islamic banking services has not been fully achieved and still there is a lot to be done by the providers of Islamic banking services to expand the customer base and attract a greater segment of the market. Concurrently, the number of people who are using these Shari'ah compliant banking services

and products are also increasing considerably and it is not difficult to suggest that the future of Islamic banking in the UK like anywhere else in the world is becoming more popular.

Figure 6.3 Islamic and Conventional Accounts



Blue bar represents Frequency and Red bar represents Percentage.

The diagram shows the number of people who have Islamic, conventional and both types of accounts. The blue bar shows headcounts and red bar shows percentage of the people who are holding these accounts.

Table 6.9 Current and Saving Accounts

Type of Accounts	Freq.	Percent	Cum Freq
Current	101	72.66	72.66
Saving	37	26.62	99.28
None	1	0.72	100.00
Total	139	100.00	

The table 6.9 shows another feature of the accounts which people hold in the survey sample. The vast majority of the people in the Muslim community have only current accounts, for example in the survey results 73% people showed that they had only a current account. A relatively small segment of the Muslim community is operating saving accounts, in our survey for example only 27% which is approximately only one fourth of the total sample size. The reason behind the current account is quite comprehensible because the Muslim community has been settled in the UK for over 50 years and they have been using the banking services for sending remittances to their countries of origin mainly; India, Bangladesh and Pakistan and sometimes they were also receiving their salaries in the banks when they were working in different factories and mills in the olden days. In those days there was not any concept of Islamic banking in the UK, particularly in the Sixties, Seventies, and Eighties and the Muslim community had only one choice left to use the current account facility of the banking system because it did not involve any element of interest. The researcher asked many people personally about the reason for using the current account and not using the saving account and the simple reply was the current account did not involve interest whereas the saving accounts were based on interest which was unlawful to deal with in Islamic Shari'ah. Now when there is an opportunity for the people to have Halal saving accounts provided by the Islamic Bank of Britain which are based on profit and loss sharing and more specifically on *Mudharaba* principle, therefore people have started using saving accounts along with current accounts but still not in a significant number. Because not all the people are aware of these financial products and even if some of them are aware of them, they still have some doubts and they raise concerns about the authenticity of these products and also these products are not so easily accessible but they have tough terms and conditions which sometime are not possible to meet with.

Table 6.10 Availability of Islamic Banking and Finance

Availability of IBF*	Freq.	Percent	Cum Freq
No	39	26.71	26.71
Yes	107	73.29	100.00
Total	146	100.00	

IBF: Islamic Banking and Finance*

The table 6.10 shows the response of the people in the survey about the question that whether there are Islamic banks or Islamic banking services available in their town or city or not. As the figures in the table reveal that 73% people replied to the question positively and 27% people said no. It means that 27 % people said that they did not have the Islamic banking services in their town or city. No doubt that the majority of the respondents of the survey were from the Greater Manchester area and there is a local branch of the Islamic Bank of Britain and the local Muslim community is aware of the presence of the bank in their city. But it does not mean that if the Islamic bank does not have a branch in a town or city then the Islamic banking and financial products are not available in that area. I spoke to the Head of Marketing and Design of the Islamic Bank of Britain about this issue and he said that now the market structure has developed in such a way that it is not necessary to have a branch in every town or city to provide the financial services because of telephone banking and online banking services.

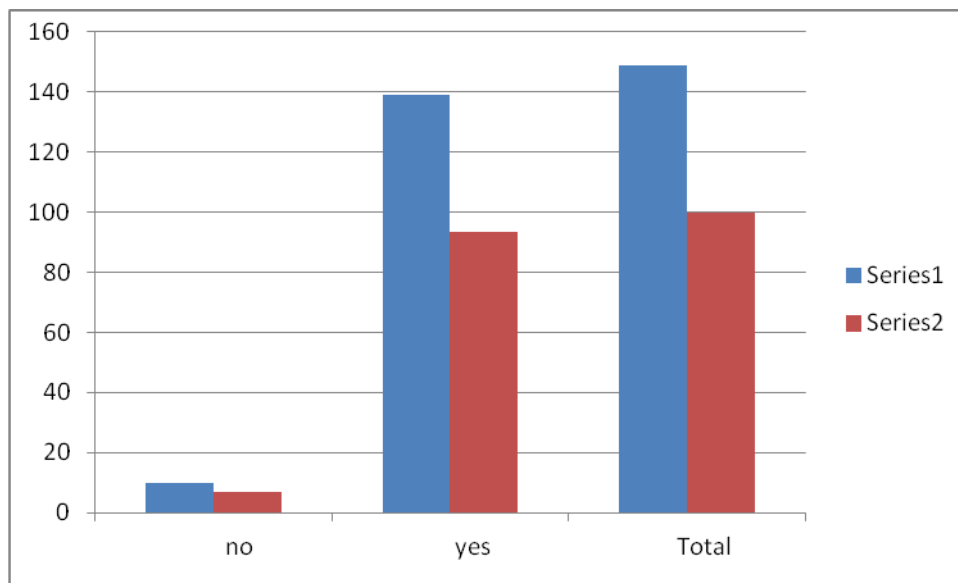
Furthermore these arrangements are gaining popularity as they are also more cost effective for the bank and convenient for the customers. So, the services are available but the people are not aware of the availability of these services and products in their towns and cities. The banks and the financial institutions which are providing Islamic banking and financial services need to advertise more effectively and approach the customers and make them aware of their available *Shari'ah* compliant products. The Islamic Bank of Britain also has another issue that is the counter service fee, when somebody utilises the counter for any monetary transaction then a nominal fee is charged. Therefore nowadays people are becoming more accustomed to using online banking services.

Table 6.11 Need of Islamic Banking and Finance

Need of IBF	Freq.	Percent	Cum Freq
No	10	6.71	6.71
Yes	139	93.29	100.00
Total	149	100.00	

The table 6.11 shows the responses of the participants to the question is there any need for Islamic banking? The vast majority of the Muslim community in the UK has the strong opinion that there is a genuine need for Islamic banking in the country. It was asked in another question that why is there a need for Islamic banking then the majority said to avoid *Riba* which is a major sin in Islam. The results of the survey suggest that 93% of the people have this opinion that Islamic banking is a need of the Muslim community. Only a small number of people, 7% said that there was no need for Islamic banking. It is quite interesting that only 10 out of 149 people said that there was no need for Islamic banking according to the survey. The demand for Islamic banking is huge and unprecedented but if the people of Muslim community are not using it as it is expected then there are many reasons behind this. For instance, the range of the products, the issue of *Shari'ah* compliance, the authenticity of the products, accessibility of the services and last but not least the competitiveness of the products and services are some reasons which affect the utilisation of the Islamic banking services. But as the market grows and the customer base will expand then the situation will be different and far better in assertion of Islamic banking potential. Because in a recent study some careful estimates suggest that, within the next few years half of the savings of the Muslim population around the world would be operated by Islamic banks (IMF WP/10/195))

Figure 6.4 Need for Islamic Banking and Finance



Blue bar represents Frequency and Red bar represents Percentage.

As mentioned in the table 6.11, the figure 6.4 also shows that the vast majority has a positive response to the question is there any need for Islamic banking and finance in the UK or not. The people who said that there was no need for Islamic banking and finance their number was relatively very small and insignificant.

Table 6.12 Reason for Islamic Banking and Finance

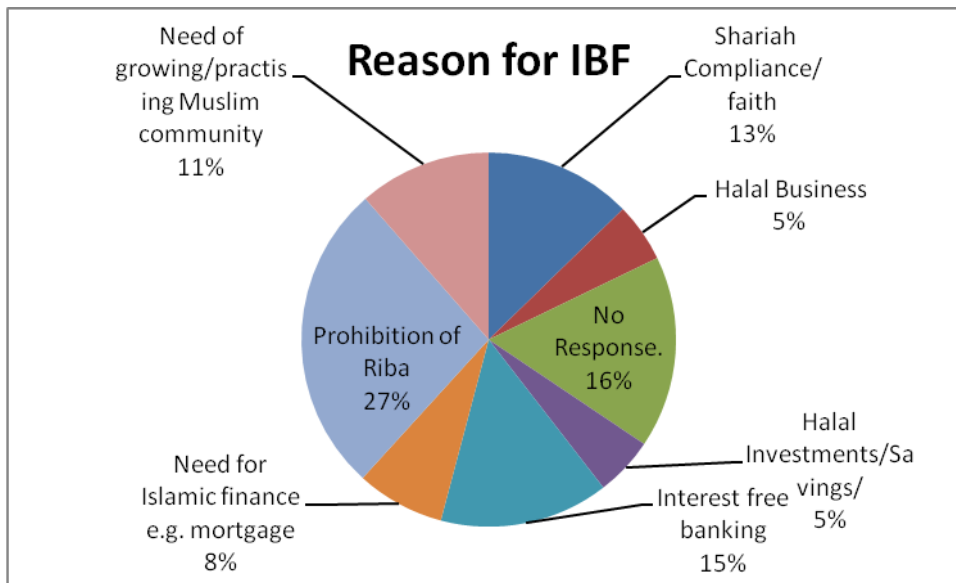
Reason for IBF*	Freq.	Percent	cum
<i>Shari'ah</i> Compliance/ faith	20	13	13
Halal Business	8	5	18
No Response	26	16	34
Halal Investments/Savings/	8	5	39
Interest free banking	23	15	54
Need for Islamic finance e.g. mortgage	12	8	62
Prohibition of <i>Riba</i>	42	27	89
Need of growing/practising Muslim community	18	11	100

Total	157	100	
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IBF: Islamic Banking and Finance*

Further to the question about the need for the Islamic banking and finance, the respondents were asked another question related to the previous one, that, why there was need of Islamic banking. In the survey, 157 participants responded to this question as the above given table shows. Among these respondents, 16 % of the people did not put any entry so they left it blank, 13% people said that the reason for Islamic banking and finance is *Shari'ah* compliance, 5% people said that they needed IBF for *Halal* business, another 5% said they wanted IBF for *Halal* investment and savings, 15% people said they needed interest free banking, 8% people suggested they needed IBF for Halal finance and Islamic mortgage, 27% said that the reason behind IBF is prohibition of interest (*Riba*) and 11% people stated that the growing practising Muslim community is the reason behind Islamic banking and finance. The table above has been modified and reorganised by correcting spelling mistakes and putting similar opinions and responses together. In the appendix the original table as it was produced by the STATA programme has been given. If we combine interest free banking and prohibition of interest as one reason which in fact is one and the same thing then 42% people have the opinion in the survey that the reason behind IBF is the prohibition of interest or interest-free banking. It is worth mentioning that the above table has been re-organised as a summarised and scanned version of the original table that was produced from the output of the STATA programme because in computer programming if there is a slight difference of spellings then it is considered as a separate entry. So to make the table more easily conceivable the similar and identical statements were combined together and the table has been presented in a more convenient way. The same data with percentages has been shown in the following pie chart diagram for a better visual presentation.

Figure 6.5 Reason for Islamic Banking and Finance



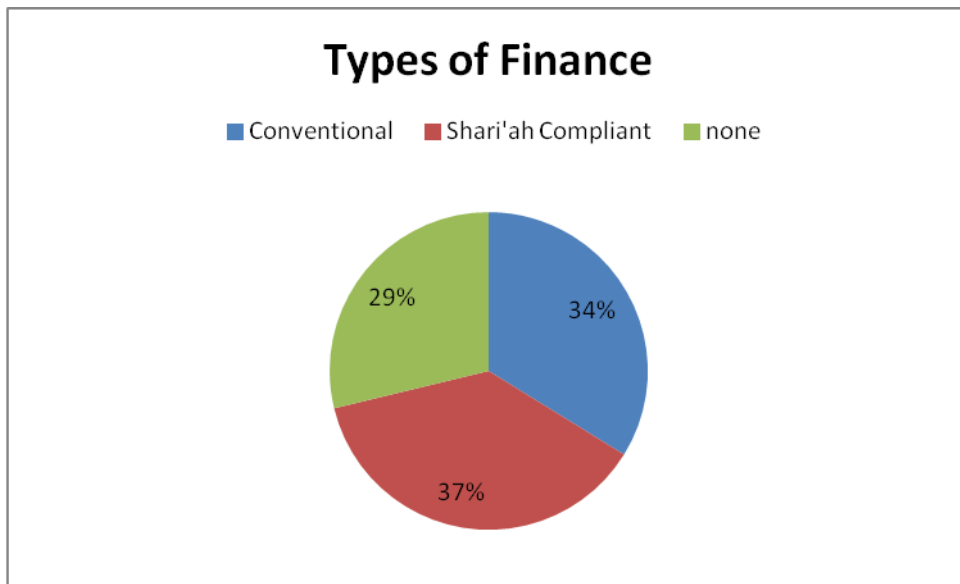
The table and the diagram both show the major reason behind the need for Islamic banking and finance due to the prohibition of interest. The Muslim community is getting more and more conscious of the evil consequences of dealing with *Riba* as the awareness and education is increasing amongst the Muslims and particularly when they know that the alternative of conventional banking is available in the market which is not only interest free but also *Shari'ah* compliant. It is not difficult to suggest that the demand for Islamic banking products will increase in the coming years as the population of the Muslim community is growing in the UK and also the awareness about the *Shari'ah* banking is increasing and the consciousness about the consequences of dealing with *Riba* is also gaining widespread attention among the Muslim community. Nevertheless, the occurrence of financial crisis and its after-effects are also creating more popularity for Islamic banking products as an alternative to the existing conventional financial system of the world. The statistics about the Muslim population may also produce drastic changes in the market segment of Islamic banking industry when the new figures are made available from the publication of Census 2011.

Table 6.13 Conventional or *Shari'ah* Finance

Type Finance	Freq.	Percent	Cum Freq.
Conventional	47	33.81	33.81
<i>Shari'ah</i> Compliant	52	37.41	71.22
None	40	28.78	100.00
Total	139	100.00	

The table 6.13 shows the number of people who have different types of finance. The number of the respondents who participated in the survey revealed their types of financing was 139, it means that some of the respondents did not complete this part of the survey. Among those who filled this part, 40 out of 139 (28.78 %) said that they did not have any finance, 52 out of 139 (37.42 %) revealed that they had *Shari'ah* compliant finance and 47 out 139 (33.81 %) had conventional finance. According to the survey, the respondents who have *Shari'ah* compliant finance is greater than the people who have conventional finance by 4%. Those who do not have any kind of finance there could be many reasons for not having any finance. Firstly, the majority of the people do not meet the conditions like the required deposit, salaries, wage slips, bank statements etc. This is exactly what I was told by the manager of the local branch of the Islamic Bank of Britain based in Longsight, Manchester and he added that the bank's branch is situated in this area where among the local population the Muslim community is in considerable majority but this local Muslim community does not have access to the products and financial services provided by the bank and those people who reside in remote and comparatively "posh" areas use most of the products we offer. Secondly, some people may have met these conditions but they are not fully satisfied with the contract, verdict and rulings of the *Shari'ah* scholars about the available products. The Head of HSBC *Amanah* has elaborated this issue in his interview and said that the factor of alignment with the scholars who sit on the *Shari'ah* board of a bank plays an important role for the customers to buy any Islamic banking product. Thirdly, the products which people are looking for may not be available in the market. As we know the range of products provided by the Islamic banking industry available in the UK market is very small.

Figure 6.6 Conventional or Shari'ah Finance



The figure 6.6 shows the same data but in a graphic presentation. Although the number of people using conventional finance and others using *Shari'ah* compliant finance do not have a major difference in terms of percentage, but those who do not use any finance at the moment their segment is also considerable and both these segments using none and those using conventional finance are the target and potential audience of Islamic banking and financial institutions.

The next question in the survey related to the previous one was about the type of financing which people are using in terms of housing, business and personal finance. It reveals the fact that what is the most significant and popular kind of financing arrangement which people are using and they have strong and genuine appetite for such financing arrangement to meet their financial needs.

Table 6.14 Types of Finance

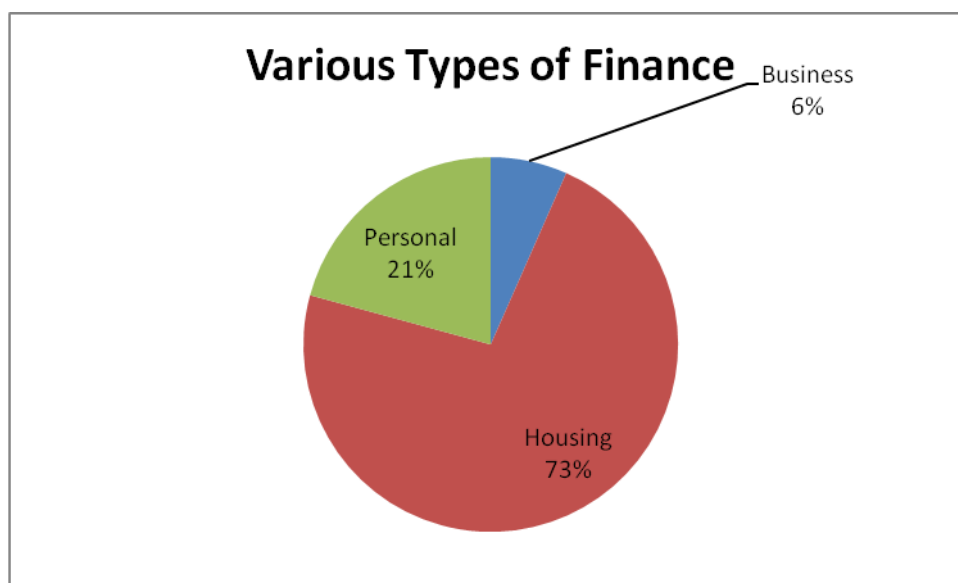
Types of Finance	Freq.	Percent	Cum Freq.
Business	7	6.60	6.60
Housing	77	72.64	79.25
Personal	22	20.75	100.00
Total	106	100.00	

The table 6.11 describes the headcount of the people who have various kinds of financing. As it is clear from the figures in the table, the vast majority of the people are using housing finance. Approximately 73% respondents revealed that they had housing finance and 21% had personal finance and only 7% had business finance arrangement. The major concern of the people in the Muslim community is housing finance. Housing conditions in the Muslim community is very poor as it was revealed in the report of Open Policy Institute which was specially produced after a deep and long study of the socio-economic conditions of the Muslim community in the UK. The basic need of the people in financial services is to get housing finance. It is not only the Muslim community in the West but the majority of the population in the western countries whether in the European countries or America has the need for housing finance. The financial market and the banking environment strongly relate with the housing market. The current financial crisis that started in 2007 in America and then the after effects spread around the world in general and western countries in particular was virtually based on many factors like extended money creation, credit expansion, the stock market bubble and the housing boom.

Undoubtedly, the housing market in the United States played comparatively more fundamental and crucial role in the credit expansion and money creation in the banking system. Later when the system collapsed it was again the housing market where the negative equity destroyed the whole structure of the banking system. The bailouts of the banks, transformation of the private debt to public debt and lowering the interest rates through monetary policy etc. nothing was so helpful to make the system persistent and stable. In the UK, the first Islamic banking and financial product that was introduced either by Ahle United

Bank Kuwait or HSBC Amanah, was Islamic housing finance. Still it remains on the top and it is the most popular Islamic financial arrangement in the market. That is the reason why there are a significant and large number of respondents who are using housing finance. As any other western society, the UK market is also a credit oriented society where people purchase their personal and household things at credit and then pay later in instalments. The Muslim community is not different in this regard. That is the reason that Islamic Bank of Britain provides Halal personal finance which is based on Reverse *Murabaha* or *Tawarruq* and a reasonable number of people 73 % have used personal finance. Surprisingly, the number of people who are using business finance is proportionately small, only 7% of the total sample size. It shows that not many people are using the business finance. One of the major reasons behind it is the structure of the business financing model is based on the principle of *Murabaha* and unfortunately as it is expected by the customers it is not based on *Mudharaba* and *Musharaka*.

Figure 6.7 Types of Finance



As it is clear from the figure 6.7 there is proportionately a small number of people who are using business finance facility. There is small range of products that are available in this regard. Small and Medium Enterprise (SMEs) sector can play a very significant role in the growth of the economy and if the business finance is made available based on profit and loss sharing models of financing then the Muslim community will use this product more widely and it will bring a fundamental positive change in the socio-economic conditions of the

Muslim community and also in the growth of the economy. If the Islamic banks have more products for small businesses then there will be more employment, more demand for houses and more economic activity and ultimately it will lead to a higher economic growth rate.

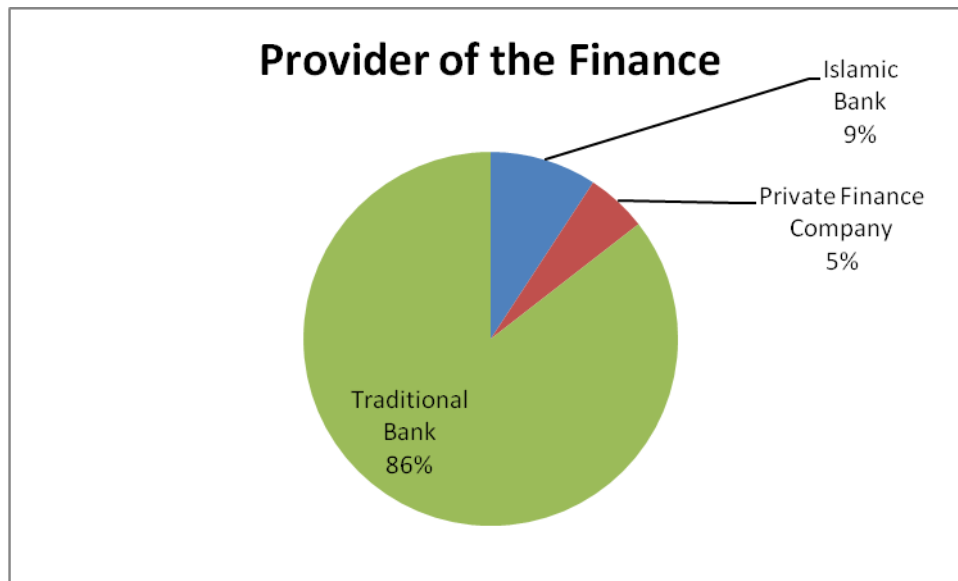
Our next issue of interest in the survey was to find out how many people are using the financial services provided by the Islamic Bank of Britain and how many people are using the services of traditional banks.

Table 6.15 Provider of the Islamic Finance

Provider of Finance	Freq.	Percent	Cum Freq.
Islamic Bank	7	9.21	9.21
Private Finance Company	4	5.26	14.47
Traditional Bank	65	85.53	100.00
Total	76	100.00	

The table 6.15 is a summary of responses of the participants in the survey about the provider of the Islamic banking and financial products. The results of the survey, as it is evident from the table, reveal that the vast majority of the people who are using these financial services are going to traditional banks for buying these products and services. It means the Islamic Bank of Britain has not obtained a considerable segment of the market share yet. The table shows 86 % people buy their finance from traditional bank and only 9 % of the respondents are buying from purely an Islamic bank, the Islamic Bank of Britain and there is another small number 5 % who buy these Islamic banking products from some private finance company like Ansar Finance Group based in Manchester which also provides personal and housing finance compliant to *Shari'ah* principles.

Figure 6.8 Provider of Finance



The diagram is the graphic representation of the same data given in the above table. A visual presentation is more conceivable than tabulation. The reasons why so many people are buying their financial product from traditional providers could be many. Firstly, the HSBC Amanah launched Islamic home finance before IBB. Secondly, the structure of the model is the same which is based on diminishing *Musharaka*, either it is provided by the HSBC Amanah or the IBB, but the terms and conditions were different. The down payment or customers' contribution or deposit, whatsoever it is called was comparatively higher for many years with the Islamic Bank of Britain and it was lower with HSBC Amanah i.e. 20%. But now the situation is different as HSBC Amanah is requiring 35% deposit whereas the IBB is requiring 20%. Thirdly, the IBB has its local branches in a small range of selected cities and in the North West it is in Manchester. Although the financial services are available online and through telephone banking by the IBB but meeting the staff of the bank and getting the questions answered can make a real difference especially when the people have many doubts and concerns rather than having some basic information and proper awareness about these Shari'ah compliant financial products.

Table 6.16 Difference between Conventional and SCF*

Difference between SCF and Trade. Finance	Freq.	Percent	Cum Freq.
No	35	24.48	24.48
Yes	108	75.52	100.00
Total	143	100.00	

SCF: Shari'ah Compliant Finance*

The respondents were questioned in the survey about their perception regarding the difference between conventional finance and *Shari'ah* compliant finance. The vast majority, one third of the total, 108 out of 143 (76 %) said that they saw a major difference in these two types of finances; conventional and *Shari'ah* compliant finances. There were only 24 % people who said that they didn't see any difference. To my understanding, those who said they did not see any difference were not fully aware of the technical and theoretical differences between both of them. The majority of the people do not understand the difference between a monetary transaction and a trade transaction. The trade transaction is the base of Islamic financing and not the monetary transaction where the money lending business takes place. Still a lot has to be done by the banks and the community leaders to raise the awareness among the people about the prohibition of interest and the consequences of dealing with *Riba*. On the other hand, even those who see the difference in both kinds of finances do not have any proper and basic knowledge about this faith-based and *Shari'ah* compliant financial system. Most of them said as it will be shown in the response of another question, that this difference was merely a difference of name and not a real difference in virtual terms.

Table 6.17 Respondents' Opinion about Competitiveness

Competitiveness of IBF* Products	Freq.	Percent	Cum Freq.
No	121	85.82	85.82
Yes	20	14.18	100.00
Total	141	100.00	

IBF: Islamic Banking and Finance*

The table 6.17 shows the opinion of the people who participated in the survey about the competitiveness of the *Shari'ah* compliant financing. In the survey questionnaire, 121 respondents out of 141 (86 %) had the opinion that the Islamic banking and financial services in the UK were not competitive as compared to their traditional counterparts. Only 20 out of 141 (14 %) agreed that the services and products delivered by the IBB were competent. One of the reasons, as I mentioned earlier while discussing why the Muslim community still has got involved in interest based traditional finance was the un-competitiveness of the *Shari'ah* compliant financial products. The deposit, the eligibility, the terms and conditions and extra marginal cost of the product make the financing uncompetitive in the market. When the people of the Muslim community have to pay extra just for the sake of their faith then only those people choose the expensive option and they get ready to pay extra marginal cost that had stronger association with their faith. The un-competitiveness factor in regard of prevalent *Shari'ah* compliant financial products in the UK market has made these products unpopular regardless of the fact that there is a substantial demand of these products in the market. The extra marginal cost of the products leads to the marginalisation of the Muslim community in the financial market as many people say that it is unfair and unjust to pay the price of being Muslim when you are using any financial product. The Islamic Bank of Britain has been charging some counter fees when the customers pay cash as deposit or receive cash from the counter regardless if it is their personal money. When the Director Marketing at the IBB (Pasha, Imran, 2011) was asked about this counter fee he said that traditional banks have many ways to make the money like interest, on over drafting but the IBB does not have many revenue channels to meet the cost of the product and service, therefore there is some

justification of charging such a fee from the customer. Some of the customers of the IBB said that they were being penalised for using the services of the bank for the sake of their faith when the researcher was collecting the information and views of the individuals about the delivery and quality of the services by the bank. The Islamic banks have to find other ways to make the money and earn profit and the best way is the operational strategy must be designed and developed in a way where it is based on *Musharaka* and *Mudharaba* more extensively. But as everyone knows who has little awareness about the operations of Islamic banks that their entire dependence is based on such products which contain a major and a prominent element of predetermined rate of returns such as *Murabaha* and *Ijara*. Therefore, the next question in the survey was about the satisfaction of the customers regarding the products and services of the Islamic banks.

Table 6.18 Satisfaction about the IBF* Services and Products

Q12	Freq.	Percent	Cum Freq.
No	114	82.01	82.01
Yes	25	17.99	100.00
Total	139	100.00	

IBF: Islamic Banking and Finance*

The table shows how many people were satisfied with the products and services delivered by the Islamic banks and how many were dissatisfied. It is evident from the table that the vast majority of the respondents were not satisfied on the delivery and quality of the financial services and products of the Islamic banking and financial institutions. According to the survey results 82 % (114) had shown dissatisfaction on the available Islamic banking services and *Shari'ah* compliant financial products. There were 25 (18%) respondents who said that they were satisfied with the existing Islamic banking services. The customer's satisfaction is one the major objectives of any business activity and if it is not happening in the case of Islamic banking and finance then it means the potential is not fully being achieved. In the analysis of some of the previous tables some factors have been discussed like a limited range of financial products, extra marginal costs of the services and products, doubts about the *Shari'ah* compliance, unawareness of the people about Islamic finance etc.

6.4 Discriminate Analysis of Respondents' Financial Needs and Attitudes

In the section 6.3 of this chapter, a profile analysis was given to discuss and analyse the characteristics of the respondents: their faith, gender, age, income, occupation, nationality and ethnicity. The reason for describing these characteristics is to look at the sample from a socio-economic perspective. These factors determine the status of the people i.e. what is their education level and how much they are earning. In this section we want to find out the discriminate analysis by combining various variables to check how this may influence the banking habits of the people. For example are there any significant relationships between the gender, age, income, occupation and ethnicity and the banking habits of the people and particularly their dealing with Islamic financial products. There are many ways to work out the discriminate analysis depending upon the nature of data. In my data the independent variables are discrete like gender, age group, income range, nationality and occupation. The most simple and the easiest way is to make a cross tabulation showing the respective potential relationship between two variables. In the following tables, an attempt has been made to find out the possible relationship between the above mentioned variables and the banking accounts and types of finance used by the respondents in the survey.

Table 6.19 Gender and Use of Various Bank Accounts

Gender	Current	Saving	None	Total
Female	11	1	0	12
Male	88	34	1	123
Total	99	35	1	135

The above table shows any possible relationship between two variables gender and the bank accounts of the respondents. The table suggests that women have mostly current accounts and men have both types of accounts; current and saving. Among 12 females only 1 has a saving account and the remaining 11 have current accounts. Similarly, among 123 males, 88 have current and only 34 have saving accounts and there is one person who did not have any account at all. It also indicates that the financial exclusion still exists in the UK. It is clear that women have current accounts because they need to have a basic bank account. Their financial needs and habits are not so diverse as compared to men. In the Muslim community everywhere in the world, including the west, it is the responsibility of men to provide the

sustenance and provisions of life to the whole family, as it has been mentioned in the Quran, “Men are the protectors and the maintainers of women, because Allah has made one of them to excel the other, and because they spend (to support them) from their means” (4:34).

Therefore, banking habits and financial needs consisting of saving and investment accounts and running business activities are mostly related with the male members of the family. But there are women who are single mothers and they receive some benefits, like social security benefits or tax credits etc. they need a basic and simple account for the transaction. They also need debit and credit cards and make payments online and a simple current account can fulfil all these needs. On the other hand, men being responsible for the living and housing needs of the family are supposed to have business activities and it requires not only current account but also saving and investment accounts. That is the reason why men have more saving accounts than women in the results of our survey questionnaire.

Table 6.20 Gender and Use of Islamic or Conventional Finance

Gender	Both	Conventional	Islamic	none	Total
Female	4	9	2	0	15
Male	56	57	11	1	125
Total	60	66	13	1	140

The table shows any possible effect of the gender on using the available financial products like conventional finance, Islamic finance or both types of finance. The results do not show any significant difference of gender and the use of conventional and Islamic finance. The majority of the people; whether men or women they have either conventional or both types of finance. There are a small proportion of the respondents who have only Islamic finance and they are not involved in any type of conventional interest based finance. In the sample there were 15 women who admitted to having finance, among them 4 have both conventional and Islamic, 9 have only conventional and 2 have only Islamic. The majority of the women have conventional finance as it is clear from the results. In terms of males, the results are not very different. Among 125 people, 56 have both types of finance, 57 have only conventional and there are only respondents who declared they had only Islamic finance which is a very small proportion of the total size.

Table 6.21 Age and Bank Accounts

Age	Current	Saving	Total
15-25	13	0	13
26-35	33	3	36
36-45	28	33	61
46-55	21	1	22
56-65	5	0	5
Total	100	37	137

The table 6.21 shows the link between the age and the accounts of the people. The results are very clear that the majority of the people have current accounts in all age groups. In the previous section it was discussed that the majority of the people use only current accounts for simple banking needs. In the sample of 137, there are only 37 people who have saving accounts, among these 137, 33 people fall in the age group of 36-45. It means that there is some relationship between young age group and using the saving accounts. The highest and the lowest age groups do not have any saving accounts. The reason could be that those who are in the age group 36-45 mostly they are employed, married, responsible for their families and conscious of more financial needs to meet the living expenses. Contrarily, the elderly people are on pension and they need just a simple current account to get their pension etc. and they are not worried about investment and financing. Similarly the young people under 25 are mostly students and their financial needs are also very limited just to pay the tuition fees, get some salary if they are employed part time and manage their credit and debit card or EMA (Education Maintenance Allowance).

Table 6.22 Age and Type of Finance

Age	Both	Convention	Islamic	none	Total
15-25	2	8	2	1	13
26-35	17	18	3	0	38
36-45	40	19	4	0	63
46-55	3	18	2	0	23
56-65	0	3	2	0	5
Total	62	66	13	1	142

The table 6.22 shows a possible relationship between age factor and using different types of finance. In the previous section as it has been mentioned that mostly the young people are responsible for the living expenses and the accommodation of the family in the Muslim community. Therefore they have saving accounts and in the section under discussion, it is also obvious that mostly the young people have various types of finance whether business, housing or personal and Islamic, conventional or both. The table shows the age group 36-45 have the highest number of finances. In this age group there are 40 people with both types of finances, 19 with conventional finance, and 4 with only Islamic finance. Although, there are people from other age groups; from the lowest 15-25 to the highest 56-65 who have conventional and Islamic finances, but not as much as those who fall under the category of 36-45. This notion is also strengthened in the coming pages. In the next chapter 7, where it has been elaborated while discussing the interview results with Amjid Ali, the Global Head of HSBC Amanah, that the young, educated and professional people are the more likely customers of Islamic finance. It indicates that the age factor does have an influence on the banking habits and particularly using financial products as housing and business finance and also Islamic and conventional.

Table 6.23 Income Level and Bank Accounts

Income (1,000)	Current	Saving	none	Total
15-25	41	35	0	76
26-35	12	2	0	14
36-45	15	0	1	16
46-55	11	0	0	11
56-65	16	0	0	16
Total	95	37	1	133

The table 6.23 shows the income range and banking accounts of the respondents in survey. The results indicate that people from all the income range groups have their current account, as it is the simple and the most basic bank account, which is required for the day to day banking needs of the people as it is clear from the second column. The third column shows how many people have saving accounts from these various income-range groups. The lowest income range group 15-25 has more saving accounts than any other income range group, out of 76 nearly half of the people 35 have saving accounts. Then in the next income range group again there are 2 people who have saving accounts. After this group as the income goes up the people do not have saving accounts. It is a clear indication that people with low income have saving accounts and people with high income do not have saving accounts. There could be many reasons behind this behaviour of the people. Firstly, people with low income need some saving for precautionary needs in the future as it has been mentioned in the Liquidity Preference Theory by Lord J. M. Keynes in his early writings published in 1930 as Treatise on Money. Secondly, the people with high income they invest their money in the real estate or any other profitable business and make high profits they do not need to depend on very nominal rate of profit given by the banks. Lastly, the people with high income do not put their surplus money in saving accounts because then they have to pay more tax on their income.

Table 6.24 Income Level and Usage of Finance

Income (1,000)	Both	Convention	Islamic	none	Total
15-25	45	26	5	1	77
26-35	6	7	1	0	14
36-45	3	7	6	0	16
46-55	3	8	0	0	11
56-65	4	13	0	0	17
Total	61	61	12	1	135

The table 6.24 shows the relationship between income range and using finance, whether it is conventional or Islamic. We are interested to know about the influence that income can produce on the behaviours of the people in dealing with finance and particularly Islamic finance. The table shows that people from all income groups have some kind of finance in their financial dealings. The second and third columns show the number of people who have both and conventional finance. The majority of the people are from the low income group 15-25 and they have more finance. Among 77 respondents from this group, 45 have both Islamic and conventional finance, 26 respondents declared to have only conventional finance and 5 people have only Islamic finance. Then we can see a considerable number of people in the higher income range group 36-45 who have more Islamic finance. In this group 3 people have both conventional and Islamic finance, 7 people have only conventional finance and 6 people have only Islamic finance. These results give the indication that low income and middle income people have more Islamic finance. When we look at this at “ground level” in reality we find that low income and middle class people are always conscious of their religious obligations. In the Muslim community the majority of the devout Muslims always belong to the lower and middle income class. Contrarily, people with high incomes have more modern views about their financial transactions.

Table 6.25 Nationality and Bank Accounts

Nationality	Current	Saving	Total
Algerian	1	0	1
BRITISH	90	37	127
Irish	1	0	1
Malaysia	1	0	1
Pakistani	8	0	8
Total	101	37	138

The table 6.25 shows the connection between nationalities of the respondents and their usage of banking accounts in terms of current accounts and saving accounts. In the profile analysis of the respondents, it has already been mentioned that the majority of the respondents who participated in the survey were British nationals. Now the banks do not open the accounts of the people without reference and proper legal residential status of the customers. There are further restrictions for certain types of banking products to be offered to the customers. For example, the housing finance and business finance products are not offered to someone if the applicant does not have a permanent residential status in the UK

Therefore we can see in the survey results that based on the nationalities only those people have saving accounts who are British nationals. Although there is a considerably small number of people who are not British nationals but we can see that all of them have current accounts and none have saving accounts. Furthermore, those who are British nationals, among them there are only 37 respondents (29%) who have saving accounts. The remaining 71% (90 out of 127) have only current accounts. The results indicate clearly that those people who are not British nationals do not use saving and investment accounts and those who are British nationals and they do not have any immigration restriction on their residential status they are also not using the investment and saving accounts in a larger proportion.

Table 6.26 Nationality and Finance

Nationality	Both	Convention	Islamic	None	Total
Algerian	0	1	0	0	1
BRITISH	57	61	12	0	130
Irish	0	1	0	0	1
Malaysia	1	0	0	0	1
Pakistani	4	3	1	1	9
Tunisian	0	1	0	0	1
Total	62	67	13	1	143

The table 6.26 shows the relationship between the nationalities of the respondents and their usage of different types of finance, like both, conventional, Islamic or none. The survey results as shown in the table make clear that the respondents irrespective of their nationalities show similar trends in terms of their use of financial products. So we can say that the nationality factor does not produce any significant impact on the banking habits of the people. The respondents with different nationalities almost all have different types of finance. For example, in 130 British respondents, 57 (44%) have both types of finance, 61(47%) have only conventional finance and only 12 (9%) people have purely Islamic finance. The second prominent group of respondents declared to be Pakistani nationals these people could be Pakistani nationals with an Indefinite Leave to Remain in the United Kingdom and later they are naturalised and become British nationals. Among 9 Pakistani nationals, 4 are using both types of financing, 3 are using only conventional finance, 1 is using only Islamic finance and 1 is not using any finance. The Algerian, Irish and Tunisian respondents have only conventional finance.

Table 6.27 Occupation and Bank Accounts

Occupation	Current Acc	Saving Acc	Total
Academic/Teaching	10	33	43
Admin/Management	10	1	11
Banking/Finance	3	0	3
Business	13	2	15
Engineer	15	0	15
ICT	6	0	6
Medical	24	0	24
Self-employed	16	1	17
Student	1	0	1
Unemployed	1	0	1
Retired	1	0	1
Total	100	37	137

The table 6.27 designates any possible connection between the occupation of respondents and their habit of banking in terms of using current accounts and saving accounts. In the profile analysis it was mentioned that the majority of the respondents belong to teaching and medical profession like doctors, dentists and surgeons, and also engineers and IT professionals. The results of the survey suggest that the majority of the respondents from all professions mostly have current accounts with the exception of teachers. All other professionals under normal circumstances prefer to have current accounts. Saving accounts are normally operated for profit earning and investment purposes. The teachers seem to have more saving accounts as they cannot run any other business as their job commitments and teaching profession is more time consuming. In the results we can see that out of 39 teachers 33 declared to have saving accounts. The rest of the respondents with different occupations declared that they had mainly current accounts.

Few people from other professions as home maker, restaurant owner, garage and administrator also showed that they had saving accounts. Separately, the vast majority of the

respondents had only current accounts 100 (73%) and 37 (27%) respondents and mostly teachers had saving accounts. As it was already mentioned the saving accounts give a very nominal profit rate and those people who are involved in any business activity do not operate saving accounts and especially when some of the saving accounts have time limitations like fixed term saving accounts and on these accounts the customer has to pay some charges if the money has to be withdrawn before the maturity date.

Table 6.28 Occupation and Finance

Occupation	Both	Conventional	Islamic	None	Total
Academic/Teaching	36	7	0	0	43
Admin/Management	3	8	1	0	12
Banking/Finance	1	2	0	0	3
Business	3	10	3	0	16
Engineer	3	9	1	1	14
ICT	3	3	0	0	6
Medical	9	13	3	0	25
Self-employed	3	12	5	0	20
Student	0	1	0	0	1
Unemployed	1	0	0	0	1
Retired	0	1	0	0	1
Total	62	66	13	1	142

The table 6.28 shows the relationship between the occupation of the people and their use of financial products like conventional finance, Islamic finance, both of them or none of them. Please remember that this finance could be any one of the following: personal, home and business finance as it has been mentioned in a previous section. But as it was clear from the results in table no. 6.14, the vast majority of the respondents had housing finance, then personal finance and the least frequent was the business finance.

Although the occupation of the respondents and their attitudes towards Islamic and conventional finance do not show any significant relationship between each other in the survey results, but there is some indication that some professions where people are highly educated like medical professionals, self employed and businessmen do have Islamic finance. The number of people who have only Islamic finance is very small i.e. only 13 out of 142. Those who have only Islamic finance they are from business, medical and self-employed professions. Most of the people either have conventional finance (66 out of 142) or they have both conventional and Islamic finance as the table indicates 62 out of 142.

It is clear from the results that the people with high education and qualified professionals have either both Islamic and conventional finance or only Islamic finance. The same fact was revealed by Mr Amjid Ali, the global head of HSBC Amanah, as it would be discussed in the next chapter while discussing and analysing the interview results.

6.5 Respondents' Opinion about some Important Statements Regarding IBF

One of the major objectives of the research was to find out the opinion of the people about certain issues which were directly related with potential and assertion of the Islamic banking and finance in the North West of the UK. It is the general perception of the Muslim community and the behaviour of the customers of Islamic banking and financial services which will determine the future of this faith based banking system. If the people have a positive attitude towards this newly emerged and enormously growing faith based community banking system, then there is a great potential to achieve financial inclusion for the less affluent and deprived Muslim community and ultimately it will have a positive impact on the socio-economic condition of the Muslims and their living standards.

Contrarily, if the people do not have a positive attitude towards the existing Islamic banking and financial services and products then it will be difficult to bring the people to join the banking system and hence they will remain isolated and economically disadvantaged.

There is no debate on the fact as it has already been established in previous empirical studies that the banking habits of the people, the smooth functioning of the financial institutions and operational stability of the whole banking system does accelerate the process of economic growth and development. As it is the banking system of any economy which mobilises the savings of the people and makes funds available for investment and economic activities.

The trust of the people in the banking and financial institutions and their frequent use of the banking and financial services along with a very mindful and cautious regulatory control of the overall banking system will run the system more smoothly and successfully. In the following sections some relatively crucial statements were included in the survey questionnaire to find out the opinion of the people about these statements which will determine the potential of Islamic banking and how this newly emerged and rapidly growing faith based community banking will have an impact on the socio-economic conditions of the Muslim community.

Table 6.29 “A Genuine Need of IBF*in the UK”

Need of IBF*	Freq.	Percent	Cum Freq.
Strongly Agree	122	81.33	12.67
Agree	19	12.67	15.33
Impartial/No View	5	3.33	18.67
Disagree	4	2.67	100.00
Strongly Disagree	0	0	0
Total	150	100.00	

IBF: Islamic Banking and Finance*

The table 6.29 shows that the vast majority of the people have agreement with the statement that “There is a genuine need of Islamic banking in the UK”. Among 150 respondents, only 4 persons (3%) said that they disagreed to the statement and another 5 people had an impartial view. Another 19 (13 %) people said that they agreed to the statement but those who strongly agreed to the statement were counted to be 122 (81%). The survey results show that almost 94% of the people agreed that there is a genuine need for Islamic banking in the UK.

Table 6.30 “More Shari’ah Compliant Financial Products”

More SCF* Products	Freq.	Percent	Cum Freq.
Strongly Agree	113	75.84	75.84
Agree	26	17.45	93.29
Impartial/No View	5	3.36	96.65
Disagree	3	2.01	98.63
Strongly Disagree	2	1.34	100.00
Total	149	100.00	

SCF: Shari’ah Compliant Finance*

The table 6.30 shows the response of the people for more Shari’ah compliant products. It has already been mentioned that at the moment there is a very small range of Shari’ah compliant financial products available in the market. A statement was included to know the opinion of the people if more Shari’ah compliant products are essential for the Muslim community. In the survey there were only 5 (3%) participants who disagreed to the statement and they had the opinion that there was not any need of more Shari’ah compliant financial products. Another 5 (3%) respondents had an impartial view. The vast majority i.e. 139 (94%) people said that they agreed or strongly agreed to the statement that there was a need for more financial products which are Shari’ah compliant.

Table 6.31 “Islamic Finance Helps My Living”

Islamic Finance and Living	Freq.	Percent	Cum Freq.
Strongly Agree	95	63.76	63.76
Agree	3	22.82	86.58
Impartial/No View	17	11.41	97.99
Disagree	3	2.01	100.00
Strongly Disagree	0	0	0
Total	149	100.00	

The table 6.31 shows the responses of the respondents about the statement “Islamic financial products will help my living.” The statement is aimed at collecting the information from the people concerning their perception about how Islamic banking and finance can help and improve the living standards of an individual in the society. In the sample of 149, 129 (87%) respondents said that Islamic banks through their services and Shari’ah compliant financial products would help their living. Whereas, 17 (11 %) had an impartial view and only 3 (2%) people did not agree to the statement. The living and housing conditions play a very significant role to determine the socio-economic conditions of the people. There cannot take place any good changes in the socio-economic conditions if the living and housing conditions are not changed. To improve the living and housing conditions of the people it is essentially important that the people have more choices of housing finance and personal finance at competitive prices. In chapter 4, it has been mentioned in detail that the Muslim community in the UK is living in poor economic and social conditions. The housing conditions are very poor. After the financial crisis of 2008, the recession and economic crisis around the world had shaken many western economies. Redundancy, forced decreased working hours and overall higher rate of unemployment seem to be as a normal situation everywhere and the UK is not an exception. In the situation where 2.7 million people have lost their jobs, the Muslim community has been affected more in terms of losing of jobs and having unemployment.

Although, the governments and the European commission are trying to help by injecting money and through bailouts of the banks, but even then the traditional banks are not

advancing loans and giving mortgages because of the uncertain economic conditions of the economy and increasing rate of unemployment. Under such financial circumstances of economic crisis and global recession, the Islamic banks and *Shari'ah* compliant financial institutions had shown more resilience and proved to be more stable based on their principles of financing which are driven from *Shari'ah*. Consequently, the Islamic banking and financial institutions can play a very positive role not only for the Muslim community but also for all the communities even for the people who are not Muslims and they have got nothing to do with the prohibition of interest as a religious obligation but they want rational and ethical based financial services and products to run their businesses and mortgages.

Table 6.32 “Islamic Banking will help my Business”

Islamic Banking and Business	Freq.	Percent	Cum Freq.
Strongly Agree	76	52.78	52.78
Agree	18	12.50	65.28
Impartial/No View	35	24.31	89.59
Disagree	13	9.03	98.62
Strongly Disagree	2	1.39	100.00
Total	144	100.00	

The table 6.32 shows the responses of the people regarding the statement “Islamic banking will help my business.” This statement is a supplement of the previous statement. It is also related to the objective of the research that whether or not the Islamic banks and *Shari'ah* compliant financial institutions will help the Muslim community to develop their businesses and improve their economic and social conditions. The table shows that 94 out of 144 respondents agreed to the statement that the Islamic banking services would help their business. Although this number (65%) is relatively smaller than the percentage of previous table who agreed to the statement (87%) but even then it shows the majority of people have the opinion that Islamic banking services will help their businesses. Only 10 % of respondents disagreed to the statement and another 25 % did not show any response.

As in the previous tables' analysis it was discussed that the Muslim community is in dire need of some comprehensive financial package to improve their poor socio-economic conditions. The majority of Muslim youth have no jobs, their educational achievement is not very impressive, the housing conditions are low standard, and they live under poor economic conditions and they have no economic activity and no fascination in the life and sometime some of them easily become the target of those criminals who brainwash them and lead them to perpetrate such activities of extremism and terrorism which are neither acceptable in the law of Shari'ah nor in the law of land of any country in the world.

The economic crisis and global recession made the situation worse as the after effects are spreading everywhere in the world. The traditional banks have put extra restrictions and tightened the policy of lending money and advancing loans for mortgages which the Muslim community being a faith based community already does not want to get involved in.

Therefore the Islamic banks can help in the situation by providing finance to small and medium term enterprises (SMEs) based on the principles of *Shari'ah* and more desirably based on the principle of profit and loss sharing modes of finance as *Mudharaba* and *Musharaka*. Micro financing arrangements can play a positive and significant role to affect the business and trade environment and change the living conditions of the people. Because the majority of the people are involved in SMEs like black cab taxis, private hire taxis, corner shops, fast food restaurants, small manufacturing garments units. To provide funding for these small scale businesses the banks do not require a huge amount of funding. But the returns and the jobs creation and employment opportunities will make a real and fundamental difference in the economy.

Table 6.33 “Islamic Banking and Social Cohesion”

Islamic Banking and Social Cohesion	Freq.	Percent	Cum Freq.
Strongly Agree	45	30.41	30.41
Agree	55	37.16	67.57
Impartial/No View	32	21.62	89.19
Disagree	10	6.76	95.95
Strongly Disagree	6	4.05	100.00
Total	148	100.00	

The table 6.33 shows the responses of the people regarding the statement “Islamic banking in the UK will increase community cohesion”. Apparently, it seems to be an irrelevant issue, but it is not in modern days. Now there are empirical studies that have been published and they suggest that there is a significant relationship between social behaviours and banking habits of the people which ultimately affect the growth of the economy, for example ‘Social Cohesion and Economic Prosperity’, (by Dayton, 2001), and ‘Banking and Social Cohesion’, (Ed by Christophe & Mayo 2001). The governments and policy making institutions around the world have realised that the banking system and financial engineering can be used in a dynamic way to bring economic prosperity and social cohesion in the society which helps to eradicate the poverty in the developed countries and likewise it will bring positive change for integration, assimilation, cohesion in multicultural and developed western societies. Keeping in mind this new development in the literature and studying the reasons and consequences of ethnic riots in some European countries like France, Germany, Holland and the UK, this statement was included in the survey to find out the opinion of the people regarding the relationship between Islamic banking and social cohesion.

According to the survey results, 90 out of 148 (67%) respondents said that they agreed to the statement and they think that the emergence and growth of Islamic banking in the UK will help to achieve the community cohesion. There were only 16 respondents who disagreed to the statement which is 11% of the total sample size and another 22 % did not show any viewpoint on this issue. The vast majority of the respondents had this opinion that if the

authorities like the government, the Bank of England and the Financial Services Authority take care of the Muslim minority and they authorise and provided the banking services which are compatible with their belief and value system then the community will have a strong sense of being stakeholders in the society. It will not only help the community in economic terms but also in social terms and they will feel respect and honour for themselves.

Table 6.34 “Islamic Banking and Multiculturalism”

Islamic Banking and Multiculturalism	Freq.	Percent	Cum Freq.
Strongly Agree	63	43.15	43.15
Agree	30	20.55	63.70
Impartial/No View	36	24.66	88.36
Disagree	15	10.27	98.63
Strongly Disagree	2	1.37	100.00
Total	146	100.00	

The table 6.34 gives responses of the respondents about another statement which is closely related with the previous one. This statement like the previous one is also connected to the social aspect of Islamic banking. The figures in the table suggest that the majority of the respondents agreed to the statement that Islamic banking will help the policy of multiculturalism. In the sample of 146 respondents, the number of participants who agreed to the statements is counted as 93 which are 64 % of the total sample size. Those who disagreed to the statement were 17 (11%) and another (25%) remained impartial and they did not show any response to this statement. It is evident from the results that the majority of the Muslim community do think that the recognition and support of the Islamic banking system in the UK financial system will help the policy of multiculturalism to achieve the goals of a coherent and peaceful society. The Muslim youth and religious fractions of the society who prefer to be recognised as a faith based community and their religious identity is the most significant aspect of their social life as it has been mentioned in chapter 3, they do want to progress in a multicultural society where people of different faiths and various ethnic backgrounds live and work together side by side in a tolerant and peaceful way by respecting the rights of one

another. So it means that the Islamic banking is not playing a divisive role but it could support the agenda of Multiculturalism more effectively.

Table 6.35 “IFIs* and Engagement of the Muslim Youth in Economic Activity”

Response to the Statement	Freq.	Percent	Cum Freq.
Strongly Agree	69	46.94	46.94
Agree	35	23.81	75.75
Impartial/No View	34	23.13	93.88
Disagree	6	4.08	97.96
Strongly Disagree	3	2.04	100.00
Total	147	100.00	

IFIs: Islamic Financial Institutions*

The table 6.35 shows the responses of the people about the statement that the Islamic banks will engage the Muslim youth in economic activity. Among 147 respondents, 104 (71 %) of the participants said that the Islamic banking and financial institutions would engage the Muslim youth in economic activity. There were only 9 (6 %) of the people who said it would not engage the Muslim youth in economic activity and another 34 (23 %) did not show any response to this statement. The table shows that the majority has a positive response to the statement under discussion. The availability of business finance which is not contradictory to the principles of *Shari'ah* will definitely help the unemployed devout Muslim youth who do not want to compromise the principles of faith and they are more conscious of their religious identity. In Chapter 3, there has been mentioned the view of the social scientists who suggested in their pragmatic studies that there was a clear evidence that business activity and economic participation played a significant role to engage the youth in good social activities. Contrarily, when the youth do not have a positive role to play and they are not engaged in the economic activities then it is more likely that they could tend towards crimes and extreme behaviors to fulfill desires.

Table 6.36 IFIs and Muslim Community as Stakeholder in the Society

IFIs and Muslim Community	Freq.	Percent	Cum Freq.
Strongly Agree	70	48.61	48.61
Agree	30	20.83	69.44
Impartial/No View	33	22.92	92.36
Disagree	8	5.56	97.92
Strongly Disagree	3	2.08	100.00
Total	144	100.00	

The table 6.36 is also related with the view of the respondents concerning another social aspect of Islamic banking. The statement was included in the questionnaire survey to find the views of the people about whether or not the Islamic banking and financial services will make the Muslim community a stakeholder in the society. The vast majority of the people had the view that the provision of such services will make the Muslim community stakeholders in the society. In the sample of 144, 100 (Approx. 70 %) respondents agreed to the statement that Islamic banking services would help the Muslim community to have the feelings that they are the stakeholders in the society. The religious identity of the devout Muslim community has been established as a known fact in the social scientists research papers like Modood (2007) and others. When they are given the opportunities where the state is taking care of their religious and financial needs they feel more comfortable and realise that their social status has not only been recognised but their special and distinguished faith based values are also taken into account by the authorities of the state. Only 11 (8%) disagreed to the statement and another 33 people (Approx 23 %) did not show any response to the statement. The results of the survey suggest that if the state and government authorities have a positive and helpful approach towards the special needs of the people of a faith based community then they have more confidence in the system. The credibility of the system depends upon inclusivity and fairness and not upon exclusiveness and injustice.

Table 6.37 IFIs Decrease Radicalisation and Extremism

IFIs and Radicalisation	Freq.	Percent	Cum Freq.
Strongly Agree	64	43.24	43.24
Disagree	18	12.16	55.40
Impartial/No View	37	25.00	80.40
Disagree	21	14.19	94.59
Strongly Disagree	8	5.41	100.00
Total	148	100.00	

In Chapter 3, a brief description of the analysis was given to discuss some of the basic and more significant causes of extremism and radicalisation. Apart from the economic factors, the socio-economic injustice and discriminatory behaviour of the authorities of the state play a very significant role in pushing the communities particularly faith-based towards extreme views and later to radicalisation and extremism. Keeping in mind this concept, the respondents were questioned about their views regarding the statement that the Islamic banking and financial services would decrease radicalisation and extremism. Surprisingly, the majority of the people agreed to the statement, 82 out of 148 respondents (Approx 54 %) said that the availability of Islamic banking and financial services would decrease the issue of radicalisation and extremism. A quarter i.e. 37 respondents (25 %) did not show any response to this statement and remained impartial and the remaining 29 (Approx 21%) respondents did not agree to the statement.

Table 6.38 IFIs Cause Division in the Society

IFIs and Division	Freq.	Percent	Cum Freq.
Strongly Agree	64	44.14	44.14
Agree	29	20.00	64.14
Impartial/No View	37	25.52	89.66
Disagree	9	6.21	95.87
Strongly Disagree	6	4.14	100.00
Total	145	100.00	

The provision of alternative banking and financial services will cause further division in the society. It is a concept which is used sometimes to refute the argument of promoting Islamic banking services in the UK. Also, the recognition of some aspects of *Shari'ah* in the social and economic lives of the Muslim community has also been criticised by certain journalists and column writers in various newspapers. To them it will cause complications and further division of the society and ultimately it will be detrimental to the national integrity. But the people of knowledge and highly educated and skilful professionals of their respective fields like Dr Rowan William (2008) and Lord Chief Justice, Lord Philips (2008) refuted this argument very strongly. Their view was completely contrary to what others said about further division etc., their argument was that if some aspects of social and religious needs of the Muslim community where faith plays a significant role are recognised it would lead to community cohesion. Although, apparently it seems to be dividing the communities further but in reality it will lead to more alternatives for the people and better understanding of their religions in a multicultural society. The results of the table 6.38 show that 64% respondents did agree that it would cause division but only to promote alternative and multiculturalism. Those who remained impartial were 26% and only 10% disagreed to the statement. From the discussion above it is not difficult to say that people are aware of the division but they are confident that it will not create alienation or dissimilation

Table 6.39 IFIs and the Marginalisation of Muslims

IFIs and Marginalisation	Freq.	Percent	Cum Freq.
Strongly Agree	12	8.28	8.28
Agree	18	12.41	20.69
Impartial/No View	33	22.76	43.45
Disagree	30	20.69	64.14
Strongly Disagree	52	35.86	100.00
Total	145	100.00	

The table 6.39 shows the responses of the participants in the survey regarding another statement which is also related with the social aspect of Islamic banking and finance. The statement says that dealing with Islamic banks can cause marginalisation of Muslims. As it was mentioned in the previous section some people think that using the separate banking and financial services will cause further division and lead to marginalisation. But when the Muslim community was questioned about their views concerning this statement they had different views but the majority said that it would not cause any marginalisation of the Muslims in the society. In the sample 145, 70 people (approx 56%) disagreed to the statement and it means in their view it would not cause any marginalisation. Only 30 respondents (approx 21 %) did agree to the statement and another 23 % remained impartial and did not show any response to the statement.

Table 6.40 IFIs and Perfect *Shari'ah* Compliance

IFIs and Shari'ah Compliance	Freq.	Percent	Cum Freq.
Strongly Agree	70	48.28	48.28
Agree	34	23.45	71.73
Impartial/No View	28	19.31	91.04
Disagree	9	6.21	97.25
Strongly Disagree	4	2.76	100.00
Total	145	100.00	

The table above shows the views of the respondents concerning the issue of *Shari'ah* compliance of the Islamic banks. The respondents were questioned about their opinion concerning the *Shari'ah* compliance of Islamic banks and the products provided by the Islamic banking industry. The views of the people about the issue of *Shari'ah* compliance were not clear. Responding to the statement in the questionnaire, 104 people out of 145 (approx 72%) agreed to the statement that the *Shari'ah* compliance of Islamic banks was not 100 percent perfect. There were only 13 respondents (approx 9%) who said that they disagreed to the statement whereas 19 % did not show any response and remained impartial. In the following tables some other relevant issues have been discussed. The doubt of the people about the *Shari'ah* compliance will be discussed in more details in chapter 7 while elaborating the views of some banking practitioners and *Shari'ah* scholars that why people have doubts about the authenticity of various *Shari'ah* compliant products on offer in the market. Briefly speaking, the predetermined rate of return or what is called the expected rate of return on saving accounts, using the LIBOR rate of interest as a benchmark for calculating the monetary value of the assets and opportunity cost of the money did not satisfy the general people who were not in a strong affiliation with any particular school of thought of Islamic jurisprudence. It is the jurisprudential attachment of the members of *Shari'ah* board to a particular *Fiqhi* school of thought that plays an important role in making mindset of the people to accept the authenticity of *Shari'ah* compliance, as we shall see in the views of Mr. Amjid Ali (2011) Global Head of HSBC Amanah mentioned in chapter 7.

Table 6.41 The PLS of IFIs and the Practical Issues

The PLS of IFIs and Practical Issues	Freq.	Percent	Cum Freq.
Strongly Agree	52	37.68	37.68
Agree	32	23.19	60.87
Impartial/No View	44	31.88	92.75
Disagree	3	2.17	94.92
Strongly Disagree	7	5.07	100.00
Total	138	100.00	

The table 6.41 shows the responses of the people about their views regarding the statement that the PLS (Profit and Loss Sharing) products in the Islamic banks have practicality issues. The heavy reliance of the Islamic banks upon those products which are based on predetermined returns principle like *Ijara* and *Murabha* indicates that profit and loss sharing principles of financing like *Musharaka* and *Mudharaba* are not being used more frequently. The customers want to see more business products based profit and loss sharing principles. The banking practitioners have their opinion as mentioned in next chapter 7 discussing the interview results that there are practical issues in using the PLS products of financing. The respondents were questioned about this issue and the majority of them agreed to the statement. In the sample of 138, there were 84 (approx 61%) who said that there were practical issues in using the PLS based financial products. There were only 10 (7%) of the people who did not agree to the statement of practicality issue in using the PLS based products and 32 % did not show any response and they remained impartial. It means that people are aware of the fact that there are some practical problems in using *Musharaka* and *Mudharaba* based financial products. But the point is that how are these practical issues to be resolved because the real potential of the Islamic banks to produce a considerable positive change in the economic and social conditions of the people will be not be attained until these are addressed.

Table 6.42 Islamic Banking Products and Doubts of the Muslims

The Banking Products and Doubts	Freq.	Percent	Cum Freq.
Strongly Agree	71	48.63	48.63
Agree	37	25.34	73.97
Impartial/No View	28	19.18	93.15
Disagree	8	5.48	98.63
Strongly Disagree	2	1.37	100
Total	146	100.00	

The table 6.42 also shows the responses of the people regarding another statement related with *Shari'ah* compliance issue of the Islamic banks and the knowledge of the people about the *Shari'ah* compliant financial products. The statement says that Muslims have doubts about the banking products of IFIs (Islamic Financial Institutions). In the sample of 146, 108 respondents (Approx 74%) agreed to the statement and said that people had doubts about the banking and financial products of IFIs. There were only 10 out of 146 respondents (Approx 7%) who disagreed to the statement and their opinion was that there were not any doubts about these products. the remaining 19% respondents did not show any response to the statement and remained impartial. It was mentioned in a previous section before that the authenticity of *Shari'ah* compliance is not clear to the customers. There are doubts about the products and also people have limited knowledge about these products. The religious attachment to any school of thought and trust in the members of *Shari'ah* board and the little knowledge about these products are the major reasons behind this. The dissemination of knowledge about Islamic finance through seminars and workshops and Q&A sessions being held more frequently can help to resolve the problem.

Table 6.43 The Islamic Banking is only Change of Name

IBF only Change of name	Freq.	Percent	Cum Freq.
Strongly Agree	66	44.90	44.90
Agree	49	33.33	78.23
Impartial/No View	26	17.69	95.92
Disagree	5	3.40	99.32
Strongly Disagree	1	0.68	100
Total	147	100.00	

The table 6.43 shows the responses of the respondents to another statement which is also related to the perception of the Islamic banking and finance operations in the UK. It is the most common statement made by the people who are not happy with the prevailing Islamic banking system. The majority of the people because of the doubts and the little knowledge they have about these Islamic banking products have the opinion that it is only a change of name and it is not really an Islamic banking system. It is evident from the statistics shown in the table that 115 out of 147 respondents, a vast majority of approx 78% agreed to the statement that the Islamic banking is only a change of name. There were 6 respondents that constituted only 4% of the sample who disagreed to the statement. The remaining 18% did not respond to this statement and remained impartial. There are many reasons behind this statement; the performance of the banks, the benchmark of LIBOR, the little knowledge of the people about the structure of the products, the difference between trade and monetary transaction, the limited knowledge of the banking staff about these products as well, the heavy reliance upon those financial products which are based on predetermined rate of returns like *Ijara* and *Murabha*, very little usage of *Musharaka* and *Mudhraba* based financial products and charging some extravagant fees for certain services could be mentioned as some of them.

Table 6.44 IFIs' Staff Not Well-Versed and Competent

Staff Not Well Versed	Freq.	Percent	Cum Freq.
Strongly Agree	50	34.72	34.72
Agree	32	22.22	56.94
Impartial/No Vie	52	36.11	93.05
Disagree	8	5.56	98.61
Strongly Disagree	2	1.39	100
Total	144	100.00	

The table 6.44 shows that the majority of the people agreed to the statement that the staff at the Islamic banks, are not well-versed and competent in the knowledge of Shari'ah based banking products and services. There were 82 respondents in the sample of 144 (57%) who agreed to the statement. Contrarily there were only 10 people (7%) who disagreed to the statement and the remaining 36% did not show any response to the statement and they remained impartial. It shows that the general public opinion is that the staff are not well-versed in the matters of *Shari'ah* based banking services and it is one of the reasons why people do have doubts about the available Islamic banking products.

Table 6.45 IFIs not Meeting Financial Needs of Muslims

IFIs and F. Needs	Freq.	Percent	Cum Freq.
Strongly Agree	35	23.97	23.97
Agree	61	41.78	65.75
Impartial/No View	40	27.40	93.15
Disagree	7	4.79	97.94
Strongly Disagree	3	2.05	100
Total	146	100.00	

Lastly, the statement was included in the questionnaire to ask the respondents about their views concerning the overall performance of the Islamic banking and financial services available in the market. The statement says that the IFIs are not meeting the financial needs of Muslims. In the table we can see that 96 out of 147 which is a considerable majority (approx 66%) agreed to the statement that the available Islamic banking and financial products are meeting the financial needs of the Muslims. There were only 10 respondents (7%) who disagreed to the statement. The remaining 27% showed no response to the statement and remained impartial. It is a fact that the financial needs of the Muslim community are diverse and exactly the same like other people in the market who deal with conventional finance. But in the conventional market you have many choices and there is great competition among the providers and the customers can choose the tailor made products in terms of personal housing and business finance. It will take time and it requires more expertise, knowledge and skills for the staff of Islamic banks to be competent in providing the alternative choices of banking and financial services to meet the financial needs of the Muslim community.

6.6 Summary

The chapter gives us a useful picture of the views and the behaviours of the respondents about their financial practices and their response to the financial and banking products of Islamic banking industry in the region under discussion. The exact number of people who participated in the research project was 157, so the number 157 determines the size of the sample.

The respondents in the survey were from various ethnic backgrounds including Arabs, Asians, Africans, Caribbean, White, Bangladeshis and Pakistanis. The majority of the people were from Pakistani background as in the North West region, the Muslim population comes from Pakistani background.

The respondents who showed more interest in the topic under discussion and those who participated in the research, they were mostly young men, educated and qualified professionals from the Muslim community. Realistically, the income level (£25,000 or less) of the majority of the participants was very close to the national average income (£26,000).

Although a large number of Muslims are not using the *Shari'ah* compliant financial products for various reasons and they are using either conventional financial products (47.22) or both conventional and Islamic banking products (43.06%). Those Muslims who are involved only in purely Islamic products their number is relatively small (9%). These results are related with the banking accounts of the community. It shows the fact that a large proportion of the Muslim community is just using the current accounts just for basic banking needs like safekeeping or transfer of money or they are using both conventional and Islamic accounts at the same time. The results also indicate that now the interest in Islamic housing finance is also increasing, although the majority of the people still have either none or conventional finance.

The vast majority of the people (93.29%) said that there was a genuine need of Islamic banking in the UK. The major reason behind this need of Islamic banking was mentioned as prohibition of interest (42 %). The large number of the participants (84%) had the view that Islamic banking can help the Muslim community to improve their living conditions. It was also revealed in the survey results that Islamic banking will help to achieve social cohesion and have a greater understanding of the Muslim faith in the wider community.

The majority of the people (94 %) from the survey also showed their concerns about the limited number of *Shari'ah* compliant financial products in the market. In other words they wanted to see and avail a wider range of Islamic banking products available in the market. Because the existing available *Shari'ah* compliant financial products were not meeting the financial needs of the Muslim community. Another major concern of the people who participated in the survey was doubts about the *Shari'ah* compliance of the Islamic banking and financial products. The majority of the participants (72%) showed their dissatisfaction about the *Shari'ah* compliance of available financial products. They have the opinion that the available banking and financial products are not *Shari'ah* compliant because they have many controversies. The major issues are like using Libor as bench mark for rent and also the building insurance of the properties taken on Islamic mortgages. The majority of the people is not well-versed in the field of Islamic banking and finance and they are in a dire need to have a greater understanding of Islamic banking and finance, both in terms of theory and practice. It is an issue which is not only related with the general masses of the Muslim community but most of the time even some of the staff of the Islamic banks or other traditional banks which are providing Islamic banking and *Shari'ah* compliant financial products they are also not well-versed in the principles of *Shari'ah* finance.

Another interesting and remarkable point of discussion was the perception of the respondents that Islamic banking and finance institutions would help the agenda of social cohesion and multiculturalism. At least 67% respondents were agreed to the statement that the provision of Islamic banking services to the Muslim community in the country would create a greater understanding of Islam in the society and enhance social cohesion.

Analysing the Interview Results

7.1 Introduction

In this chapter the focal point of our discussion is to analyse the interview results. As a part of my research project, I conducted interviews of a number of prominent members of the society which included *Shari'ah* scholars, non-Muslim faith leaders, banking practitioners and business and community leaders. In the following sections, the views and ideas of these participants who had different backgrounds but they were significantly related in one way or another with religion and faith or banking and Muslim community, are meant to be discussed. The banking practitioners and *Shari'ah* scholars are directly related with the subject matter of our discussion. But non-Muslim faith leaders and community leaders are also a part of the wider community and they are also related to some extent with the matters of the community in terms of the faith and *Shari'ah* as a law for banking and finance activities for the Muslim community.

The views of these participants were collected in an individual interview sessions. Some of the participants replied to the questions through email to express their views on the same issues and topics which were raised in the interview sessions for structured interviews. The chapter is a detailed analytical and critical discussion of the findings of these interview results from a categorical perspective. For example, in a categorical analysis we will look into the views of various groups on particular issues and find the agreement or disagreement among these groups on the topics of our interest which were mentioned in the interview questions. Furthermore, extending the discussion of different viewpoints within the groups we are also interested to know if there is any agreement and disagreement on particular issues among the members of one particular group.

Obviously those matters where all the groups and all the members within a group have agreement it will gain the significance of unanimity. On the other hand, if there is any disagreement then the matter will be taken into consideration according to the personal opinions of relevant practitioners. It is quite difficult to have a consensus on a particular issue which is based on the intellect of human beings and it is also related to human behaviour and

not with a scientific phenomenon, but the discussion of these results will help to widen the spectrum of knowledge and open new areas of research in the subject matter.

7.2 Faith and Banking

The issue of involving faith in banking practice is the foundation of our discussion. *Shari'ah* compliant banking is virtually a faith-based banking where faith and religion have played a significant role to determine the rule of conduct of all kinds of banking practices. The opinion of various scholars, banking practitioners, community leaders and even non-Muslim faith leaders was surprisingly unanimous on the issue of involving faith in banking practice. So it is one of the points where all the groups and all the members of each group have consensus that banking should involve faith.

One of the renowned *Shari'ah* scholars and a founder member of the London based Islamic *Shari'ah* Council, the first and the most recognised *Shir'ah* arbitration tribunal of the UK, Dr Suhaib Hassan secretary of the council said that 'no aspect of a Muslim's life is exempt from *Shari'ah*.' To him banking and finance is an important sphere of life and a Muslim has to submit and surrender to the teachings of Islam in every sphere of life. Another *Shari'ah* scholar, Abu Eesa Nematullah, a member of Al-Qalam Foundation UK, expressed his views by saying that 'for those belonging to faith communities, clearly there will always be a need for financial products and services'. In particular, he mentioned those customers who are not willing to compromise their principles when it comes to an interest-based economy. Another interesting and very valid argument was put forward in his views that from a business point of view, one would not be maximising potential revenue streams without catering for an ever-growing faith-based community.

A well known banking practitioner in Islamic banking industry, Amjid Ali, Global Manger of HSBC Amanah, also had the same view that Islamic banking in the UK is customer driven banking service and Muslim community is an ever-growing population in the UK, 40000 births are registered on yearly basis in the Muslim community. He declared that from HSBC perspective, providing Islamic banking services is a part and parcel of 'community banking strategy'. He added that the dynamics and the demographics of the world were changing and Islam as a faith had gained more significance in the lives of Muslims. Looking at a wider scenario and referring to the global picture he mentioned that 1 out of 5 people of the world

population were Muslim. So, in his view the Muslim community is a growing community locally in the UK also worldwide and Islamic banking is community based banking addressing the financial needs of a particular community which is very conscious of their value belief system.

Another banking practitioner, Imran Pash, Head of Marketing and Retail at Islamic Bank of Britain also agreed very strongly to the viewpoint of involving faith in banking. He made his remarks saying that involving faith in banking is driven from the route of *Shari'ah*, and it is coming from the ideology of Islam, the ideology that Islam is not just a religion but it is way of life. It implies that how people manage their economic and financial affairs is only one aspect of that system of life. Furthermore, Islam teaches not only how to create wealth but also how to dispose of that wealth in a responsible and ethical manner. Essentially, the reason behind this teaching, in his view, is to create a just and fair society which is open to people of all faiths, race, religion and creed. From a business perspective, he also had the view that Islamic banking like any other business is identifying the need of the market and trying to satisfy the customers.

The concept that faith is an indispensable part of one's life and faith is a major determinant of your practical life was also put forward by another banking practitioner, Aman Sheikh, Head of Structuring and Executive at ABC Islamic Bank. He described his personal story to affirm that how faith was important in his life when he was working in a conventional bank in a distinguished position for over 6 years and dealing with interest but when he knew about the consequences and penalties of dealing with *Riba* from an Islamic perspective then he left the job and joined an Islamic banking institution.

Leaders of other faith group, namely Christianity, Parish Priest Revd Stephen Edward, Curate Revd Lara Dose and Georgina from St Agnos Church Manchester were asked to share their views about involving faith in banking and they also had very strong views that faith had to be involved in banking. They responded vigorously by saying that faith had to involve every aspect of our lives or it was not faith. Lara Dose said the same thing as Imran Pasha from IBB said earlier that my faith tells me how to earn and how to spend my money. But she also made a bit controversial remark by saying that, 'I think I have always thought of banking as a secular area of practice'. If she meant that the banking practice should not involve faith then

her view could be regarded as a difference of opinion and if we take the interpretation of freedom of religion and faith for everyone in the banking sector implying that those who are interested in faith-based banking should have this opportunity and those who do not have any preference for such a faith-based banking system they can have their choice then the matter is clear to have a consensus on the issue.

A well recognized community and business leader in Manchester, Dr Ali Akbar, Chairman of the Ansar Finance Group Manchester, also emphasised on involving faith in the banking by saying that ‘there is nothing we do in life that does not involve our faith’.

So it is clear from all the above discussions that the different groups involved in this research project and each member in these groups has a numinous view on the issue of involving faith in banking practices. The reason behind this unanimity is the greater significance of faith in those communities which prefer to be identified as faith-based communities and they are not willing to compromise on the principles of faith in the major spheres of their lives. They take faith as a value belief system and they want to conduct their monetary and financial transactions in compliance with their faith. In particular if there are ethical issues and prohibition of interest involved in these transactions then there is a possibility that these faith-based communities will not participate in main stream financial activities and it will lead to financial exclusion of them from the banking and financial system which could be detrimental to the economic growth of any economy especially if these communities have a considerable segment of population in the country and they are also ever-growing.

7.3 Need of Islamic Banking in the UK

The rationality and genuineness of Islamic banking services being provided in the UK was another question in the structured interviews. The participants were asked for their views on the issue that how did they think about the notion that the Muslim community in the UK had a genuine need of Islamic banking. This question is a further explanation of a previous question and it is not a repetition because involving faith in banking is a generic expression and it could be referred to different types of banking practices and not necessarily Islamic banking, but when Islamic banking is used then it is specifically a Shari’ah compliant banking system to meet the needs of the Muslim community.

On the issue of a genuine need of Islamic banking system for the Muslim community in the UK, the respondents from various groups and members from each group made identical remarks. There was not a single response from anyone in opposition of this view. All the respondents replied that it was a genuine need of Muslims to have Shari'ah compliant banking in the UK. Some members of other faith groups also said that Islamic banking system should be clearer, open and accessible even for people of other faiths and no faith.

Dr Suhaib Hassan said that the present banking system was an interest-based system which did not comply with Islamic teachings. He made very explicit and decisive remarks by saying that, 'Therefore, Muslims in the UK are in a need of an interest-free banking system to avoid one of the most forbidden acts in Islam i.e. dealing in usury'.

Abu Eesa Nematullah also agreed very strongly to the opinion that the Muslim community in the UK were in a genuine need of having an Islamic banking system. He based his remarks on the argument that the British Muslim community was more aware of the problems that other Muslims in Europe were going through by not empowering themselves politically and economically in their respective countries.

Imran Pasha from the Islamic Bank of Britain also responded positively to the question saying that there was a genuine need of Islamic banking for the Muslim community in the UK. His major argument relevant to this issue was prohibition of interest in Islam. He said that in Islam both giving and receiving interest is *Haram* and the main aspect of *Shari'ah* compliant banking is the absence of *Riba*. Referring to an alternative of interest in the banking system he also described profit based returns generated through economic and investment activity based on trade transaction or physical asset based investment.

Amjid Ali from HSBC Amanah also had the same opinion that Islamic banking in the UK or anywhere else in the world is a response to the financial needs of Muslim customers from a religious perspective. He said that, 'as a global financial services organisation we have taken understanding of our customers, also determined what their needs are, looked at what their requirements are from a religious perspective, identified independent religious scholars that are able to advise and guide HSBC Amanah in order to be able to provide solutions of their financial needs that confirm their religious beliefs as whole'.

Mr Aman Sheikh from ABC Islamic Bank also agreed strongly to the viewpoint that Muslims in the UK needed Islamic banking system. He based his argument on the prohibition of interest. He said that banking and finance is one of the indispensable aspects of human life in the modern world. Everyone needs banking and finance from the day one when he/she is born until when he/she dies. Conventional banking is based on interest and interest has been declared *Haram* or prohibited in Islam. He also mentioned that there was lack of education and a lot of ignorance amongst Muslims in the UK or even in other countries about prohibition of interest. He also mentioned the severe implications of dealing with *Riba* by saying that, ‘in Quran Allah swt said the Allah and His Messenger would launch war against that individual who doesn’t abandon *Riba* and also and the *Hadith* of dealing with *Riba*, 70 times the sin of doing *Zinah* (adultery) with your mother’.

A Muslim community leader in the UK and a known writer about Islamic finance, Mohammad Amin, made very careful remarks by saying that ‘Muslims in the UK do not have an automatic right to *Shari’ah* compliant financial services. However, the state should remove impediments to private sector participants providing *Shari’ah* compliant financial services’. He gave the example of double stamp duty and referred it to as levelling the playing field.

Dr Ali Akbar from AFG Manchester said that he was in the UK since 1962 and he observed that Muslims did not involve in banking services due to the element of interest (*Riba*). He also mentioned that those Muslims who did involve in *Riba*-based banking were not aware of the consequences of *Riba*. To him ‘For those who want restrain from dealing with *Riba* they need to have solutions of their financial problems compliant to *Shari’ah* and that is why Islamic banking is essential for the Muslim community’. His main argument for the need of Islamic banking is financial inclusion and prohibition of interest.

A Muslim MP from Glasgow and a recognized Muslim community leader, Anas Sarwar also made very pertinent comments but he did not deny the importance of Islamic banking in the UK. According to his opinion, ‘Access to Islamic banking is not necessarily a right which the government should guarantee that all people should have, but nor should people be prevented from pursuing Islamic banking if they wish to do so’. He also mentioned that if Islamic banking can lead to the enhancement of a coherent society then it would be very beneficial.

His careful opinion is a good example of a political answer which is based on democratic principles and civic liberties.

Leaders from the Christian faith fully supported the presence of Islamic banking in the UK. Revd Stephen Edward said, 'I fully support the presence of Islamic in Britain. It might help other banks to think more deeply about their own ethical policies'. Revd Lara Dose also expressed same views by saying, 'I agree strongly that the Muslim community should have access to Islamic banking'. She also showed interest to learn how Islamic banking works in practice although she read the theory of Islamic banking. She appreciated the cultural implications of how different communities approach business ethics and how their businesses operate. Georgina also showed a positive response to the question under discussion and said, 'I believe that such banking should be freely available'. Also, she raised a very interesting concern that if this banking was open to everyone and people had knowledge about what happens to the profits that are made, then people from other faiths and none, might wish to follow this example and put their money to good use benefiting charities.

In principle, the concept of Islamic banks is based on fairness and justice to all members of the society and it is available to everyone regardless of race, religion, gender, faith, colour and creed. In the long run, if Islamic banks successfully show the evidence that their operations and investment ventures are socially responsible and ethical from a moral perspective then people from other faiths are likely to join Islamic banking services. The reason behind is that the faith-based communities and even people of no-faith give a lot of importance to ethical codes and their behaviours are mostly determined by the ethics.

The above mentioned discussion indicates that for certain reasons, for instance, prohibition of interest, financial inclusion, the implication of dealing with interest from Islamic perspective, democratic freedom and civic liberties, community cohesion through financial inclusion, attracting the capital of Muslim investors from the Gulf etc, the presence and progress of Islamic banking in the UK will produce a multidimensional impact on the economy and multicultural society in Britain.

7.4 Islamic Banks Catering Financial Needs of Muslims in the UK

This question has been very controversial among the participants in terms of their responses. We could not find any consensus on the issue whether or not Islamic banks in the UK are catering the financial needs of Muslims in Britain. The *Shari'ah* scholars, community leaders and banking practitioners all made different remarks on this issue. Mostly the *Shari'ah* scholars and business and community leaders have one opinion that Islamic banks are not catering for the financial needs of Muslims whereas the practitioners of Islamic banks with one exception showed their opinion that under the prevalent circumstances what is being provided is not bad. Most of the respondents think that the existing products have an extremely limited range to satisfy the financial needs of Muslim community in the UK. Different participants looked at this issue from various perspectives and tried to analyse why the financial needs of Muslims are not completely fulfilled by the ongoing Islamic banking serves in the UK.

Dr. Suhaib Hassan from Islamic Shari'ah Council London expressed his opinion that banks perform various functions related with banking and finance for example, providing saving accounts, current accounts, transfer of money arrangement for business loans and arrangement for mortgages. He says that interest can be easily avoided in current accounts and money transfers but in the case of business finance, mortgages and saving accounts interest is involved in traditional banking. These are the areas where Islamic banks can help the Muslim community and provide solutions to the financial needs of Muslims. But unfortunately, he concludes that, 'Islamic banks still fail to provide satisfactory facilities on both these issues'. He was referring to the limited range of available Islamic banking products in the market and also some controversies about these existing products from the Shari'ah point of view.

Abu Eesa Nematullah showed disagreement on the issue of Islamic banks in the UK catering for the needs of the Muslim community. He referred to the complexity of the terms and conditions of the limited available products which he regarded as 'half-backed'. He also criticised Islamic banks for not providing more products as the needs of the Muslim community are the same in terms of finance like other people and they need accessible financial products not with tough conditions and heavy deposits as in housing and business finance arrangements.

Imran Pasha from IBB responding to this question made very careful remarks. His view was more realistic and was based on a balanced approach. Partially, he disagreed to the question under discussion and expressed his views as a skilled banking practitioner from the perspective of Islamic Bank of Britain. He said that as a retail provider in the market there is only the Islamic Bank of Britain which is catering the financial needs of Muslims in the UK. He acknowledged that what was on offer in the market in terms of Islamic banking and financial products was a limited range, mainly focused on Islamic home financing and some savings products. But the needs of customers are diversified and there is a whole financial cycle of customers from a young age to retirement and there are lot of gaps in the financial model. He was hopeful that 'as time evolves and other players enter the market like IBB their demand will be met'. He analysed the market and discussed the limitations and problems facing the banks and showed some hope that in future the situation would be much better in terms of Muslim community and Shari'ah compliant banking in the UK. As a matter of fact those products which are on offer in the market they have less risk element as they are asset backed and also they have a kind of predetermined rate of returns on them in terms of *Ijara* and *Murabaha*.

Amjid Ali from HSBC Amanah gave some wider picture and showed more aspiration on the issue of catering for financial needs of Muslims in the UK. He was more than convinced that Islamic banks are catering for the needs of Muslims to a reasonable extent. Although at the same time he acknowledged that these banks are addressing some aspects of the financial needs of Muslims and not touching every aspect of the customers' financial needs. He mentioned that it was HSBC Amanah as the first high street bank in the UK which launched Islamic home finance back in July in 2003. To him it is the most *Shari'ah* compliant model of home financing based on diminishing *Musharaka* principle and it was not an *Ijara* with a side letter. He also described another financial product that was offered in July 2005, Takaful insurance, but for some reasons it was withdrawn subsequently from the market in Dec 2008. Other financial products offered by HSBC Amanah in the UK were the Pension Fund and Investment Fund available in the market since April 2009. The Pension fund was available for the employers who could invest on behalf of their employees but the employees cannot directly have access to this product.

According to his opinion, to a larger extent the bank is catering for the financial needs of Muslims but due to certain reasons it is not touching the every aspect of their financial needs. The major reasons behind this limited provision of the products were the unified IT infrastructure of the bank and a small segment of the market, Muslim audience. He gave the example of Malaysia saying that, 'HSBC Amanah is providing almost every single product under the banner of *Shari'ah* compliance because the customer base is very large. But in the UK you are talking about 2.4 million Muslims and further when you break down this to the market segment then addressable market segment are only 200,000. He said that for HSBC to spend a huge amount of money on IT to build a specific product to cater for a maximum of 200,000 customers and even from them the response rate is not 100 percent it would not be a justified investment.

He also showed the same hope as said earlier by Imran Pasha from IBB, that by 2012 the bank would have a unified IT model and the bank is going through the process of this at the moment, then HSBC Amanah would be in a better position to lift and shift other products from any other market and offer it in the UK.

Aman Sheikh from ABC Islamic, also partially disagreed to the opinion that Islamic banks are catering for the financial needs of Muslims. He had the view that the quality of service and delivery of the products were not very attractive and the products were not very competitive. For that reason the bank has attracted only tens of thousands of Muslims customers and not hundreds of thousands. Referring to a report published by Mackenzie, he categorised the customer base in terms of fully committed, faith based and practising Muslims which would always go for *Shari'ah* compliance products irrespective of cost factor and they were only 10% of the market. The remaining 10-20 % would go for cheapest option irrespective of *Riba* and its implications. In the middle 60-65 % were not sure what to do and that was the audience which could have been targeted by the Islamic Bank of Britain.

He said that, 'in my view Islamic Bank of Britain had failed in their service delivery'. To him people want instant access to their money without any difficulties, hurdles and at no extra cost. But unfortunately you pay the price, for example in case of the service fee when you go to the counter even for getting your own money back. But he also had the opinion that these difficulties would be tackled gradually.

Dr Ali Akbar from AFG Manchester also did not agree to the question that Islamic banks were catering for the needs of Muslims. He had the opinion that the ongoing Islamic banking services are insufficient for the needs of Muslim community. He said that there is a large Muslim population in the UK but there is only one retail Islamic bank in the country. A small number of conventional banks are also providing a limited range of Islamic products through their Islamic banking windows but again they are not meeting the needs of the Muslim community. He also discussed the education factor in the community about Islamic banking and said that people have very little knowledge and poor information about these products and even those who have some knowledge they have a lot of doubts about the authenticity of these products. Discussing the issue of doubts in the minds of the people who are buying these Islamic financial products, he said ‘if you ask them they would say we do not see any big difference in the structure and the functioning of these products in essence but the terms and conditions are different and sometimes more difficult’. He pointed towards another important aspect of Islamic banking, the end result, justice in the society and equitable distribution of wealth. He also raised his concerns about the Islamic banking and financial services in a way that it was not bringing a visible change in the society in terms of justice and equality which is the desirable goal of Islamic Economic system.

Most of the people in the above discussion have the view that Islamic banks need to expand their services to meet the financial needs of the community. The available products are a good start but it has to move onward. Also, the terms and the conditions of these provided products have to be more realistic and practical keeping in mind the situation of the potential customers. So these products can be tailored in a way to become more accessible. The quality of service and cost of delivering products are required to be more competent so the customers are not penalised and they do not have to pay an extra price for availing the opportunity of Islamic Banking. The number of products which are available is very small and mainly the focus is on financing the residential properties. The needs of customers require more services and products at a competent price. Islamic banks are also far behind in educating the people and approaching the customers and raising awareness about the banking products and consequences of *Riba* from an Islamic point of view.

The banking practitioners justified the limited scale of products and small range of financial services based on their argument of a relatively small segment of the market and huge

investment to attract this audience. The time factor has also been attached a greater significance in the sense that Islamic banking industry especially in the UK is 'like a new born baby' as Amjid Ali from HSBC said, 'it has just started sitting and it has not even crawled yet'. Lack of education is also a big factor which has resulted in small clientele of the Islamic banking products. Consequently, there is not a big incentive for the investors to put more capital resources and allocate funds in the industry.

In spite of all these issues and opinions the fact remains that more products, competitive rates, reasonable conditions, crystal clear information and good quality service as provided in the modern banking industry will certainly attract a lot of customers and the market base will increase substantially.

7.5 Role of Islamic Banks from a Socio-Economic Perspective

The response of the people on this issue was also based on difference of opinion. We have both kinds of views in each group and within the group. There are respondents who said that Islamic banks are playing positive role to improve the socio-economic conditions of Muslims. On the hand there are views of the people that these banks need to do more in terms of banking services and financial products so the Muslim community can avail these opportunities for the betterment of their social and economic conditions.

In the group of Shari'ah scholars, one member totally disagreed on this issue while the second one had a partial disagreement. Dr Suhaib Hassan said that Islamic banking in the UK has not been much successful even in the necessities like buying a house or acquiring a small loan for personal needs. His view was that it would take more time for the Islamic banking industry to produce some favourable and visible impact on the socio-economic conditions of Muslims.

Abu Eesa Nematullah also had the view that Islamic banks and conventional banks offering Islamic options both needed time to find their feet in the market. He suggested that to have a direct impact on the socio-economic level of individuals and more economic growth in the society it is in the interest of all parties, having a number of years tested the residential

market, to move towards business products specifically in the form of partnership and entrepreneurial projects.

Imran Pasha from IBB looked at the issue from various angles. He tried to answer this question by touching various aspects like creating job opportunities, generating returns for customers and share-holders, investing in socially responsible manner and in that way improving the conditions of the community from socio-economic perspective. For example, he said that when the bank was inaugurated there was a small group of dozen or two dozen people who were working in the bank and now we had created jobs for 120 people. He also said that we had supported businesses all over the country and supported various organisations and charities in their different charitable ventures. In a wider sense all these factors are really important to increase the prosperity of the people and economic growth in the economy. But the point to be discussed here is that how much small and medium term enterprises are financed in the investment ventures activities of the bank. Obviously, if a bank is helping the people to establish the business as new SMEs and expand the existing one then it will produce a positive and favourable impact on the economic growth and the well-being of the community and to change their socio-economic conditions. In practice, mostly the available finance by the only retail Islamic bank in the UK, IBB is not for SMEs or other business ventures but it provides business finance for the existing businesses as working capital on *Murabaha* basis.

Amjid Ali from HSBC was more confident to say that the whole ethos of Islamic banking was to align with the community banking strategy. Therefore, to him in terms of economic perspective, he said, 'I believe that HSBC is playing a vital role to improve the socio-economic conditions of Muslims. It is engaging that segment of the community that would have disfranchised from banking because of their religious convictions'. To support his argument he mentioned the example of Amanah Housing Finance (AHF). Before this housing finance was available in the UK, a significant number of Muslims either were renting the properties or they decided not to enter the housing market as a first time buyer because of the interest element which was involved in conventional mortgages. But when it was launched in July 2003, many people showed interest. For example, he said that in the first six months of our launch we received 12500 calls in our call centre and 80% of them were women.

Discussing the socio-economic role of the Islamic banks and how it helped the people to improve their conditions he described a significant factor that impeded the role of the banks and it was in his words, 'lack of understanding'. He said about himself that he did not know anything about Islamic finance although he was born in this country and went to a mosque at the age of 5 and read Quran when he was 8 years old and actually learned 5 chapters of Quran when he was 11 years old. He said that everyone like me learned about basic concepts of Islam i.e. Shahadah, Salah, Zakah, Sawm and Hajj but nobody new about *Riba* and that it was prohibited in Islam and about the severe consequences of dealing with *Riba*. So 20 years later, when HSBC Amanah was launched and he joined this business then he got to know everything about Islamic finance.

It is a fact that the majority of Muslims still have very little understanding of Islamic finance and other economic concepts of Islam. Therefore the role which Islamic banks can play in improving the conditions of Muslims still has not been actualised to the full potential. Another factor which served as an impediment in this regard is the extra marginal cost of these Islamic financial products which are available on the market. There are different types of mindsets in the Muslim community and only moderate, enlightened, educated and professional Muslims availed this opportunity. In the beginning, only orthodox practising Muslims were the audience of this banking when it started and they did not take the cost factor into consideration while a vast majority of Muslim community was conscious of the extra marginal cost. But now the customer base is expanding gradually and consistently. In the beginning people were asking about the *Shari'ah* compliance of the products but now they tend to enquire about the cost factor and how long it will take. Currently, most of the banks; Islamic or conventional with Islamic windows are focusing on Islamic housing finance product whereas the commercial side of the business still needs to be addressed. To address 3% of the total market there are many providers in the market to offer Islamic housing finance like HSBC Amanah, Lloyds TSB, IBB, National United Bank, *Al-Buraq*, *Ansar* Housing Finance and *Ahle* United. But for SMEs and the commercial side of business nobody has developed any significant and satisfactory product so far. Buy to let and commercial finance can really play an effective role but at the moment these bankers have only aspirations but not the products to be offered.

When Mr Amjid Ali was questioned about their position on this issue he said that we developed a product based on diminishing *Musharakah* principle, joined ownership but we refrained from it at this time because of the financial climate. Specifically when I insisted about buy to let Islamic finance then his response was very clear that there is a risk element of third party claims against the bank as the bank's pockets are deeper than the borrower. This statement also shows that how much the bank is going to take the risk in a product based on diminishing *Musharakah* principle and why Islamic banks are offering Islamic finance only on residential properties. Similarly, responding to a question about *Shari'ah* compliant business finance Mr Amjid Ali said that it was offered at the moment and there was not any appetite to offer it in the current financial situation. He made it clear that if the business finance was launched and offered then it would be structured on commodity *Murabaha* basis as working capital for running businesses and buy to let finance on diminishing *Musharakah* principle.

Mr Aman Sheikh responded to this question by saying that Islamic banks were not charities and they had to deliver returns to the shareholders so there should not be any difference between Islamic banks and conventional financial institutions. He also discussed the element of *Qardh Hasan* and said to his knowledge no Islamic bank provided this loan to the community. To him it was not a good idea to promote the concept of Islamic banking as charity organisations otherwise these banks would not make much profit and survive by the end of the day. His point of view was that these Islamic banks were supposed to provide all the financial products to meet the needs of the Muslim community because their needs were similar to other people. The conventional banks provide financial products and services to the people for their needs but in Islamic banking these have to be competent and Islamic as well. Criticising the current situation of poor standards of service delivery and limited number of products provided by Islamic banks in the UK, Mr Sheikh said that the role in bringing a good change in the community from socio-economic perspective had still to be played more effectively. This role cannot be played until and unless the Islamic banks are providing the same services at competent prices and also in compliance with the *Shari'ah*. The reason analysed by Mr Sheikh why Islamic banks have not been able to play an effective role so far is more or less the same as pointed out by the group of *Shari'ah* scholars mentioned earlier. The interesting point here is that Mr Sheikh is a banking practitioner and not a *Shari'ah* scholar.

Dr Akbar from AFG responded to this question of the role of Islamic banking in changing the conditions of Muslim community very carefully. His approach was more balanced and realistic. He acknowledged the role of Islamic banks in bringing a change in residential market for Muslim community as Islamic housing finance opened the door for those who would have not entered the housing market as first time buyers if the Islamic housing finance product was not there. But in terms of business and trade there was very small help available to the people. Most of these providers do not offer business financing and even those who provide it like IBB it is in a very small and limited capacity. He said that for those Muslims who wanted to start a new business or even grow the existing ones did not have enough available finance. In his view for these Muslims who want business financing either they have to comply with their religion or there is no choice for them. Analysing the reason behind this, Dr Akbar mentioned the scarcity of resources and shortage of funds with Islamic banks. In his words, 'The amount it deals with is very small compared to the conventional financial economic activity'. But he was confident that in future as the demand grows gradually then there would be more available products and more financial resources for these products. To him Islamic banks in the UK are operating at a very initial stage and it will take some time when they learn the market and needs of the customers and bring more products to meet the financial needs of the Muslim community.

To sum up the views of all these participants what we have learned is that Islamic banks can play a vigorous and effective role to bring a positive change in the living conditions of the Muslim community from socio-economic perspective as Muslims will feel more confident and comfortable to deal with these Islamic financial products in terms of improving their housing and business problems. Obviously when there are more business ventures then the jobs opportunities will also increase and ultimately it will have a good impact on the economy as a whole. But at the moment due to limited financial resources and lack of experience in the market and also misconceptions about available products, the Islamic banks have not been able to fully utilise the potential of a financial institution in the UK economy.

7.6 Islamic Banking and Regulatory Authorities in the UK

On the issue of support or lack of support by regulatory authorities in the UK for Islamic banking, the participants had different views. Various groups and the members of these groups had their personal views and it showed some pattern. The *Shari'ah* scholars had difference of opinion with banking practitioners and the business community leaders they seemed to lean on the side of *Shari'ah* scholars. Each and every member of these groups responded to this question in a realistic way and their personal observation and professional perceptions were important to shape their views.

Dr Suhaib Hassan saw the authorities to play their role as an impediment rather than giving help and solution for Islamic banking in the UK. To support his argument he mentioned the example of Al Barakah bank in the past that had to wind up its activities in the UK because of the hurdles laid down by these authorities in its operation.

On the other hand, another member of the group, Abu Eesa Nematullah he agreed to the opinion that the role of FSA and the Bank of England was supportive and helpful in terms of promoting Islamic banking industry in the UK. He was so strong in his opinion that he said it would be incorrect to believe that Islamic finance industry had not been supported by the regulatory bodies in the UK. To support his argument he mentioned the name of Eddie George, when he was the governor of the Bank of England he played a very positive, supportive and helpful role to establish and promote the industry in the UK. The support from the successive governments and the role of the regulatory authorities had made the UK and especially London as the Western capital for Islamic Finance industry. In his view all the parties gained profit handsomely by this banking industry in the UK.

From the bankers' side all the members of the group agreed on the point that the regulatory authorities in the UK; the FSA and the Bank of England and also the government are playing very positive, supportive and helpful roles to promote Islamic banking in the country. None of the group member had any difference of opinion.

In European countries, Imran Pasha from IBB described the leading position of the UK in Islamic finance and banking industry. To support his argument he said there were five

standalone Islamic banks which were fully *Shari'ah* compliant and moreover they were regulated, authorised and supervised by the FSA and the Bank of England. Also the only retail bank in the western countries regulated and backed up by the central bank of the country is the Islamic Bank of Britain, which is operating in the UK for more than six years, he said. All together there are twenty two financial institutions operating in the UK and they are providing some kind of *Shari'ah* compliant financial products. He concluded by summing up that it would have not been possible if it was not the support of the government and regulators which resulted in the UK to be the leader of Islamic financial services in Europe.

Responding to the question why the government and the regulators are following a supportive and encourage policy for Islamic finance in the UK, he made clear that there were two major reasons behind this policy of the government. Firstly, he said the government wants London to be the HUB of Islamic finance in Europe as it was indicated by the then Prime Minister Gordon Brown. Secondly, he described the geo-political position of the UK capital to play an effective and vital role in the emergence of this newly born financial industry because of London being one of the financial centres of the world, it got all the insider services that go with financial services like; legal profession, accounting profession, the historical link that the UK has got with different parts of the world and more significantly, the legal framework that exists in the English Common Law contracts, all these made the UK as natural choice for Islamic banking. Referring back to the statement of the Prime Minister regarding, Multiculturalism (Cameron. D. Feb 2011) when he was questioned about any change in the policy of the coalition government, he said that there was not any change so far.

Amjid Ali from HSBC also agreed very strongly to this point of view that the government and the regulators had been supportive in all the previous years. He reaffirmed that HSBC as a pioneer of Islamic banking in the UK had a very close working relationship with the authorities in the UK and there were always consultations going on between the bank and the authorities especially from the days of Eddie George when he was head of the Bank of England. He was confident that the government and the FSA were supportive and nobody looking to hinder the progress of this industry in any shape or any form. Regarding any change in the policy of the coalition government and the statement of the Prime Minister about multiculturalism, he said that although there was some nervousness because of the lack of understanding and it was understandable. But in terms of any change in the policy of the

government and the authorities, he did not see any difference at all and he had the opinion that the support which was already there was still going on.

Mr Aman Sheikh from ABC Islamic Bank also has a strong opinion on the issue that the British government and the regulatory authorities have been very supportive and encouraging in regards to Islamic banking in the UK. To his understanding, the UK government was probably at the forefront of making changes at the regulatory framework, like tax framework and stamp duties in promoting the growth of Islamic finance. He said that it was an exceptional job which the government had done in the UK. He was very confident to say that if the financial climate had not changed and there was not the worldwide financial crisis of 2008 then the support and the help by the authorities in the UK would have seen the UK at the forefront of further developing the growth of Islamic banking and finance industry. The reason why this support was there, he said that London being as a centre of excellence of Islamic banking outside the region, the authorities realized commercially and strategically its advantage.

Dr Ali Akbar from AFG also agreed partially to the opinion that the authorities in the UK had been supportive in the field of Islamic banking in the UK. The changes in regulatory framework of the FSA and the Bank of England were a clear indication of the fact that the industry was supported by the authorities. The removal of double stamp duty was a milestone in promoting Islamic housing finance and to make the product more competitive in the housing market, he said. He also mentioned some other elements and restrictions like providing guarantees by Islamic banks which Islamically were not acceptable from the *Shari'ah* perspective. So he saw that still there were some elements in the regulatory framework which were not allowing Islamic banks to operate more properly and effectively.

A community leader and expert on *Shari'ah* finance, Muhammad Amin described the situation more sophisticatedly and he said that although it was not the obligation of the government to provide Islamic finance in the UK, but the government had sought to remove the impediments such as double stamp duty with the goal of ensuring that *Shari'ah* compliant finance was treated no worse, no better than conventional finance. He referred this policy to levelling the playing field.

A Muslim MP, Anas Sarwar didn't express his opinion deliberately, may be for political reasons, on the issue under discussion regarding the role of the authorities in the UK whether supportive or not, but he did have the understanding that if the regulators in the UK have an accommodating policy in terms of Islamic banking services then 'plurality of banking options is beneficial to the UK economy as it allows people to find the best option for their personal circumstances'. Various banking options which are suitable for the people in their respective personal circumstances are always helpful in the economic growth of any economy. Banking and finance are the only source of mobilization of the savings of the people in the modern economic world. If a faith based community that has a considerable population in the country is deprived of having banking and financial services which meet their personal needs and circumstances then it will have a detrimental effect on the growth of the economy especially in those times when the economy is already going through a bad recession and the economic activity, has not been so efficient to bring the economy back on the track of development and progress.

It is an undeniable fact, as it is evident from the views of the majority of the participants with the exception of only one *Shari'ah* scholar, that the UK government and the regulatory authorities, the FSA and the Bank of England had a very supportive policy and encouraging atmosphere in the UK for the growth of Islamic banking. On certain occasions the rule of conduct was changed in the regulatory frame work to promote and make Islamic products more competitive in the market, for instance the removal of double stamp duty in case of Islamic housing finance. If there is any particular restriction on the operational procedures of Islamic banking and financial institutions then it is entirely for the benefit of the customers and to safeguard their deposits, for instance to guarantee the deposits of the customers in Islamic saving accounts. The regulators and the government do not have any direct benefit and gain if the deposits of the customers of Islamic banks are secured and the banks are obliged to take the liability of the deposits of the customers.

The *Shari'ah* compliance regulation is not in the direct jurisdiction of the local regulators in the UK as it is in the case of other Muslim countries like Malaysia where the regulators make sure that the Islamic banks comply with both kinds of regulations legal and *Shari'ah*. We can rightly say that if the UK did not have this policy then we would have not seen so many standalone Islamic banks and particularly the only fully-fledged Islamic retail bank in the

west regulated and authorised by the central bank of the country. Hopefully this support will carry on for Islamic banking industry in the UK as most of the participants agreed it is for the benefit of all the parties and so far there was not any change in the policy of the government and the regulators towards the operation and growth of the Islamic banks in the UK. But one can see clearly under the current circumstances of worldwide financial crisis when the British government is facing a huge budget deficit and the economy is going through a severe recession. The current deficit has clearly taken the attention of the coalition government and it could affect the further legislative development for Islamic finance in the UK. However, if the government continues the policy of promoting development and progress of Islamic banking and finance industry in the UK then the country would take advantage of Islamic finance's inherent stability and growth potential in the long run.

7.7 Islamic Banking and Financial Crisis

The financial crisis which started in 2008 and it affected the whole banking system in many countries of the world due to globalisation and knock-on effect lead the people to think about Islamic banking and finance institutions as they were the least affected financial institutions in the crisis. When some of the conventional banks in the west were declaring bankruptcy and the trust of the people about banking and financial institutions was shaking, at that point, the Islamic banking and the financial institutions were still making profits and obviously the interest of the people started growing in this new banking system which is based on divine ideology (Hasan & Dridi, 2010, Iqbal, Mirakhor, Krichenne & Askari, 2010, Parashar & Venkatesh, 2010 and Roland, 2010). The reason why these were not so badly affected as the conventional banks did in the financial crisis is that the Islamic banking system is based on asset based financing principles where each and every transaction has any sort of tangible and physical assets at the back of all the investment and financial activities. Under these circumstances many legal professionals and banking practitioners even from the traditional background started suggesting that the future of Islamic banking had become, more bright and secure as the performance of these institutions was satisfactory even in the worldwide financial crisis and the efficiency of the system was unquestionably more resilient than the conventional and interest based banking system. For example, as it was mentioned by Sir Andrew Cahn, the Chief Executive Officer of UK Trade and Investment when he was discussing the future of Islamic finance and banking in the UK, 'Despite its origins overseas, Islamic finance has found a natural home in the UK. Though no sector is immune to the

global financial crisis, Islamic finance has shown greater resilience' (Cahn, Sir Anderw, 2009). Also in a working paper published by IMF the authors Maher Hasan and Jemma Dridi concluded and confirmed that in general Islamic banks fared better than conventional banks during the global financial crisis (Hasan, M. and Dridi, J. 2010).

The question of resilience of Islamic banking system in the financial crisis was put before the responding groups like *Shari'ah* scholars, banking practitioners and community leaders. The Shari'ah scholars and the community leaders had a similar viewpoint and their opinion was that at least theoretically the Islamic banking system had more resilience than the conventional banking system. The banking practitioners had more realistic and a practical viewpoint that no sector had an immune system when the financial crisis was affecting the institutions. But it was true that some institutions were affected comparatively less than others.

Dr Suhaib Hassan had a very careful response to this question. He said, 'Theoretically yes, but practically they have suffered because of the credit crunch as well, because these banks have always dealt with the interest based network of major banks in the world'. It means that in theory these banks have the potential to show greater resilience to financial crisis and credit crunch but working in the global financial system has affected the immunity of Islamic banks as well as the interest based system had a knock-on effect on these banks.

Abu Eesa had a stronger view on this issue and he said, 'there is no doubt about this'. His argument was based on the Fractional Reserve Banking system, to his opinion; where the conventional analysts were waking up to make some drastic changes in the conventional banking system to make it more stable. He had the view that the Islamic principle would almost lead to a more stable economy.

Imran Pasha from IBB had also agreed to the opinion that Islamic banks had shown more stability and greater resilience in the current financial crisis and they were the least influenced financial institutions. He mentioned the example of IBB and its growing business in the stressful times of credit crunch in the UK where the primary cause of credit crunch could not expose of it no matter what business strategy IBB was following. He had the opinion that the credit crunch started when the loan-able funds were given in an irresponsible manner. On the

back of these funds there were not any physical assets. Furthermore, the used derivatives and financial instruments were not properly based and did not have any real underlying security and assets and it created a speculated bubble which had an impact on the general economy worldwide. On the other hand, in Islamic finance the financial institutions are prohibited from engaging in speculative and gambling activities. Consequently, if Islamic banking and the finance model was followed, in his opinion, there would have been more stability and creditability. But in terms of profitability, margins and business environment, Islamic banks were also affected because they are also a part of the global economy.

Amjid Ali from HSBC did have the opinion that Islamic banking industry in the recent financial crisis was not so much affected, but his opinion was based on an extended argument and he tried to make a proportional comparison between Islamic banking and the conventional banking. In terms of showing greater resilience and more stability, he was confident to say that the Islamic investment fund of the bank has performed near enough more than all others during the financial crisis and that is because obviously the fund did not include the banks which took a major hit in terms of their portfolio. He also added that the funds backed by assets and gave more promising returns to investors. So, asset-backed investment and no dealing with the interest-based banking financial instruments were the major reasons behind the well performed and more stable Islamic investment fund in HSBC.

Does that mean that that Islamic finance is the saviour of the day? Partially his answer was no. He said that it depends upon the environment in which you are living. An environment where faith plays an important and vital role in determining the day-to-day activities of the people like he mentioned Saudi Arabia then you can say that Islamic banking can play a significant role in the economy to prevent the occurrence of such financial crisis. But in the West; America and Europe people are used to conventional banking and convention banking in the world is dealing with \$ 90 trillion whereas Islamic banks around the world are dealing with only \$895 billion. It is not easy to jump from 1 trillion to 90 trillion and it is not going to happen overnight. He also gave the example of the size of HSBC Amanah in the UK as a pen mark on a page which is No.7 in the world in terms of Islamic finance market.

Undoubtedly, the global size of the market is growing and the double digit growth rate (15% to 20%) of Islamic banking industry shows a rapid and enormous growth rate and it is

estimated that half of the world's 1.6 billion Muslims' savings would be with Islamic banks within next six years. But at the moment we must not forget that it is only a small alternative opportunity and not a replacement of the system, he said.

Realistically, it is the fact that where Islamic banking system is operating as a core banking system in any country and that will be an ideal environment then it is true to say that Islamic banking system which is remarkably interest free and asset-based financial system could be a saviour of the day but in the real world as we can see, Islamic banking industry is only a tiny bit of the conventional banking and financial system and for Islamic banking system to produce a significant impact on the global financial system it will require more time and greater size of the market share.

Aman Sheikh from ABC Islamic had a very similar view to the question under discussion as stated earlier by the Global Manager of HSBC Amanah. Theoretically, he mentioned, Islamic banking and finance system is based on certain fundamental principles; like prohibition of interest, Gharar (excessive uncertainty), gambling, investing in socially irresponsible ventures like betting on which way the market is going to go and other unlawful activities, therefore it can save the risk and it has the potential to prevent the crisis but it will not remove the risk completely. To produce an effective impact in a significant way on the meltdown of global financial crisis, Islamic banking requires reaching its critical mass. At the moment, Islamic banking industry is estimated roughly 1% of the global financial market and that is very difficult for such a small industry to have a major role in terms of alleviation of financial crisis and meltdown the instability of the conventional banking system. He also mentioned an outdated statistic that if all the assets of the Islamic banks of the world are put together in one super Islamic bank then it would rank No. 60 in the world of top financial institutions of the world. He referred to law of statistics and the probability of default and said that these crises will happen again and again until and unless the bankers and policy makers behave responsibly in terms of their financial dealings and banking operations. His view was very strong that if the Islamic banking industry had reached its critical mass then definitely because of its potential and fundamental principles it will help reduce the occurrence of financial crisis again and again.

The conventional banking system has matured and evolved and it is there serving the people for over 500 years and also has a great potential for innovations, but comparatively, Islamic banking system has started only three decades ago and of course it is progressing but still immature, young and evolving and the potential for innovation is almost very limited because of the basic tenets of Islamic finance, these are the real challenges. Therefore it will take a long time, more than expected, decades not years, before you see some significant contribution of Islamic banking in the global financial market, may be when a super Islamic bank is ranked as one in the top ten financial institutions of the world. He also discussed the knock-on effect of financial crisis on Islamic banking industry and said that the risk knows no religion and the Islamic banks were also influenced in a wider global financial market.

In the above discussion what is clear as a general viewpoint of the participants is that Islamic banking as a theory and because of the basic tenets has a great potential to create more stability and show greater resilience towards cyclical fluctuations and financial crisis in the global financial market. But currently, its impact on the global system is not only very limited but also very insignificant because of its relatively small proportional presence in the global financial market. It will take a considerably long time for Islamic banking and financial system as a global participant and provider of financial services to produce some significant impact on the global economy in terms of alleviation of financial crisis. The Islamic banking industry is new in the capital market of the world and in principle, it has all the essentials to play the role of a stabilizer in the global financial system but still there remain some challenges which are constraining the role of Islamic banking system as a well performing player in the global economy, the relatively smaller base of capital assets, a smaller market segment, lack of innovations in product development, and less expertise are some of them.

Speculation, uncertainty, gambling and investing in unlawful business ventures like alcohol and pornography etc, are not allowed in the Islamic *Shari'ah*. Nevertheless, Islamic economic system puts more emphasis on honesty, social justice, equality and fairness in all kinds of trade and financial transactions. These principles can play a vital role if they are implemented in any banking system which is based on the principles of ethics and morality. On the other hand in the current financial crisis greed and dishonesty were also discussed among many others as prominent working factors behind the scene. Discussing the reasons behind the current financial crisis all the participants agreed that the speculative type of business was the

major reason. Some even said that the way these investment banks were operating and investing on toxic assets and selling and buying the CDOs (Collateralized Debt Obligations) created the speculative bubble and more surprising thing was that why the global financial market did not collapse years earlier. Prof. Joseph Stiglitz, Nobel Laureate criticised the mismanagement of the banking operations and irregularities of the system which caused a havoc in the global economy (Stiglitz, J. 2008). In his words the crisis ‘is the fruit of a pattern of dishonesty on the part of financial institutions, and incompetence on the part of policymakers. Islamic banking and financial institutions have to comply with certain fundamental principles as stated earlier and they are not allowed to operate in an irresponsible way where the speculative bubble takes place and then it creates a situation of instability and uncertainty.

7.8 Shari’ah Boards, Shari’ah Compliance and Shari’ah Law

In the second chapter, Theory and Practice of Islamic Banking, we have described in more details that Islamic banking and financial system is based on an ideology and this has a divine nature and it is not a product of human intellect. The divine law technically called *Shari’ah* law is the foundation of Islamic banking. The law has been derived from divine resources Quran and *Sunnah*; and consensus of the scholars and analogy of the jurists also played a significant role in finding the ruling of *Shari’ah* about certain matters which have not been explained specifically in the two fundamental resources Quran and *Sunnah*. The *Shari’ah* compliance of the products in Islamic banking is supervised by a group of scholars who have an in-depth knowledge of *Shari’ah*.

In our interview questions to different people we tried to find out their views about the basic concepts of *Shari’ah* which are related with Islamic banking in the UK. For example, the role of *Shari’ah* boards, the *Shari’ah* compliance of the products, the acceptance of *Shari’ah* law in the local judiciary as a personal law for those Muslims who voluntarily want to be governed by this law in some spheres of life like finance and marital affairs. Mostly, the *Shari’ah* scholars were the addressees of these questions but partially, the leaders of other faith and banking practitioners were also engaged in the discussion.

The most critical and controversial question was about the acknowledgement of *Shar’ah* law in the UK as a personal law for certain spheres of life; finance and marriage etc. Dr Suhaib

Hassan had a very comprehensible view on this issue. He had been involved in many intellectual debates on this topic at some renowned academic forums as a founder member and head of the first recognized *Shari'ah* council of the UK. He extensively wrote articles in newspapers and participated in panel discussions on electronic media to support his argument that *Shari'ah* law must be acknowledged in the legal system of the country for certain affairs of Muslim population in the country. The Muslim community should be entitled to practice their personal law in a non-Muslim country. Such facility is provided in many non-Muslim countries like Kenya, Sri Lanka, Israel, and to some extent in India as well. Likewise, the non-Muslim communities living in Muslim countries like Egypt do enjoy this privilege. More interestingly, the British Empire, during its rule in India and Middle Eastern countries used to acknowledge this system. Hence, there should not be any difficulty if such a system is allowed in the UK.

Abu Eesa Nematullah also agreed to the opinion that the British legal system should acknowledge *Shari'ah* law to the extent that Muslims are able to refer to the *Shari'ah* principles to deal with their internal religious affairs. He also looked at the matter from another perspective and said that it would be more progressive and profitable for all the parties concerned and involved at a time when the legal system is already over-burdened with the problems of the country. The economic factor behind Islamic arbitration tribunal (*Shari'ah* council) is something very significant in the current economic situation as the budget deficit has forced the government to exercise severe cuts in the spending of public expenditure.

The leaders of non-Muslim faiths who participated in the discussion were also asked about their opinion on the issue. There was a kind of mixed response to this question and partial agreement to the viewpoint was very clear. Nobody said explicitly no to the question that the Muslim community should have /or not have the access to their religious arbitration in the UK and whether it should be recognised by the judiciary or not. But these leaders of other faith raised some reservations and concerns as well if in case the *Shari'ah* law supersedes the English Common Law which is ruling not only in Britain but also in many other countries of the world. The other issue was the misinterpretation of the statement given by the Archbishop of Canterbury Dr Rowan William. It was also stated that if the matter to be governed is related with the internal religious issues then it is the right of every community and faith

group to have access to their religious arbitration tribunals. But in case of any conflict with the local legal system or any possibility of playing a divisive role rather than inclusive then it would lead to the barriers and isolation in the society which could further provide areas of conflict among various groups of the society.

Revd Stephen Edward from St Agnos Church said that, 'To a point I agree with Dr Rowan William and Lord Philips that each faith community should be able to define its own principles and models. However, consideration must be given to all people in the society (and not just one particular faith) and it is crucial that individual faith laws do not eclipse or supersede the national laws'. He was confident that the national law should be secular and for all and faith laws must be secondary and not conflicting with the national law.

Revd Lara Dose from St Agnos Church had a positive, constructive and thoughtful opinion. She also raised the concern that this issue had more significance and it required serious thought and consultation. She had the opinion that if the Muslims are allowed to be governed voluntarily in certain spheres of life according to *Shari'ah* law would be a positive step towards a more inclusive British society. She had the reservation that if the *Shari'ah* arbitration courts are not carefully negotiated and positively presented to the wider community then it would further instill an 'us and them' mentality; far from being inclusive it would become divisive.

Georgina had a different view and she had the opinion that the matter required further details and discussion in the society. She was worried to see if different sections of society have different laws. To her it could lead to further isolation, segregation and set up barriers between groups of people which could provide areas of conflict. Being a woman she was also concerned that if in the respective laws of any particular community (regardless of faith) the rights of women are not fully acknowledged and embraced then it would cause problems.

Looking at the views of the participants and comments given by Dr Rowan William (2008) and Lord Philips (2008) one thing becomes almost very clear that the issue of recognising some aspects of *Shari'ah* law in the legal system has some misunderstanding and misconception in the society. The massive majority has a misconception that acknowledgement of the *Shari'ah* law in the local judiciary implies that a parallel legal

system in Britain which in most cases is contradictory and conflicting with English law and it will create problems. But those who have a deep knowledge of the issue realize that it is neither a parallel legal system nor a separate legal system within a system, it is only accommodating some parts of the *Shari'ah* law in the local legal system for those Muslims who voluntarily want to be governed by this law as a matter of their religious faith and also this law would not supersede or eclipse the local legal system of the country which would remain the supreme law of the country for everyone and all circumstances. The acceptance of some aspects of the *Shari'ah* law is already recognized, the presence of Islamic banking, the authorisation of these *Shari'ah* compliant banks in the UK, the removal of double stamp fee on Islamic mortgages, the regulation and supervision of the regulatory authorities like the FSA and the Bank of England for Islamic banks, the acceptance of Islamic marriage as a civil partnership, the inheritance law in terms of templates of Islamic will etc. are some examples which give the evidence that some aspects of *Shari'ah* law have already been accommodated. Still there is a need to educate the people, Muslims and non-Muslims alike about the issue, and the wider community needs to comprehend the implication of this acceptance, the pros and cons of the presence of this system in the society, its role either leading to community cohesion and national integration or isolation and segregation of various sections of the society. The marital and financial spheres are critically important for Muslim community from a religious perspective and if such arrangements are accommodated in the legal system that those who voluntarily want the rulings of *Shari'ah* as the guiding principles for such affairs they will feel more comfortable to be a part of the system.

Another important aspect of the *Shari'ah* discussion is authenticity of the banking products and compliance of the *Shari'ah* in the Islamic banking system. As a matter of fact what I have learnt from the views of various participants, in particular the banking practitioners and the *Shari'ah* scholars, is that many people still have some doubts about the compliance of *Shari'ah* in terms of Islamic banking and financial products. They are not fully satisfied with the authenticity of these products and they have many questions unanswered. Only the *laissez-faire* (according to Mr. Amjid Ali it means moderate and adaptable Muslims willing to change with changing circumstances), highly educated and mostly professional Muslims are using these Islamic banking products. The old generation, less educated people, non-professionals and those religious Muslims who follow a particular methodology in the faith and they are not inclined to such a school of thought whose scholars sit on the *Shari'ah*

boards of these banks; they always have questions about the *Shari'ah* compliance of these products. In my interviews with these scholars and banking practitioners I asked a question about the compliance of *Shari'ah* of these Islamic banking products. The participants responded differently and there was not any consensus on the issue among the scholars.

Dr Suhaib Hassan, the well known founding leader of Islamic *Shari'ah* Council of London replied quite explicitly, that he was not satisfied with the *Shari'ah* compliance of these products. To him most of the products seemed to be an Islamized version of conventional interest-based practices. Abu Eesa Nematullah also raised concerns about the compliance of these products. His view like Dr Hassan was also a negative response to the question but he put forward the argument of using interest rate as the benchmark of all the financial transactions and monetary products of these Islamic banks. He also discussed the ever going on state of difference of opinion among the scholars on various *Fiqhi* issues of *Shari'ah* and the inherent weaknesses and contradictions to be found at macro level. His major argument was that how can someone be satisfied with the products that depend upon conventional rates and margins in order to measure their success.

Aman Sheikh from ABC Islamic Bank made a very strong statement and said that I know that these products are not perfect, but at least there is some alternative and these products are not compulsory. About the authenticity of the products, he said that if you ask this question to the Sharia'ah scholars they would never say that these are not perfect because they will loose all their income. Amjid Ali from HSBC Amanah mentioned clearly that when people come to the bank for Islamic products they have many questions to ask; for example, prove to me that it is *Shari'ah* compliant, what *Hadith*, what *Sunnah*, why you have done this and why you have done that etc. But it was in the beginning when the Amanah housing finance was launched in the UK back in 2003 and in the following years. But he also told something interesting that those areas like Bradford and Dewsbury and other areas in the North of England where people have some inclination towards the Hanfi school of thought and Hanfi scholars like Sheikh Mufti Taqi Usmani then they ask less questions and when they are told that these products have been approved by these scholars then they say that this is what we want. Another remarkable point in his discussion was that with the passage of time now people ask fewer questions about the authenticity of the products in terms of *Shari'ah* but they are more conscious about the cost factor and the length of the contract and terms and

conditions. It also shows that not only inclination to a particular school of thought but also the ethnic background of the customers plays a significant role in the acceptance of these products and their *Shari'ah* compliance. For example, he mentioned another interesting point that in Manchester when a Bangali Muslim brother was appointed as Amanah manager as a successor of a Muslim from Pakistani background, he sold the product mostly to Bangali community and before when there was a manager from Pakistani ethnic background then the majority of the customers were from this particular background. So jurisprudential inclination and ethnic homogeneity of the Muslim community are significant factors in determining the acceptance of these products and their popularity in the community. So far as the religious aspect and *Shari'ah* compliance issue are concerned people are very conscious about the *Shari'ah* scholars and their jurisprudential background.

Another interesting point mentioned during the discussion by Amjid Ali from HSBC Amanah was if the person who is selling the Islamic banking products is a Muslim and he knows the basics of Islamic finance and he or she is also practising or at least if he/she is not Muslim then must be aware of the traditions and the values of Islam then it will gain more confidence of the customers from the Muslim community. Anything which is Islamic should come through Islamic channels and in an Islamic way. He mentioned the example of a non-Muslim Amanah manager working in Bristol who said Eid Mubarak to a Muslim couple who were potential customers on the occasion of Eid and the husband hugged him and kissed him to show his feelings of appreciation.

So, in simple words we can say that religious background, school of thought, personality of the scholars involved, ethnic background, personal interests, language, community relationship all play a very significant role in the development and progress of Islamic banking in a society. It also shows that Islamic banking is a community banking where the belief systems of a religious community with its other aspects like traditions and values are taken into account very significantly.

The performance of *Shari'ah* boards and their role as a *Shari'ah* supervisory committee in the bank to ensure the *Shari'ah* compliance of the financial products of Islamic banks is another controversial issue. The banking practitioners have a different view from the scholars and those scholars who have position in the boards they also have a different view from those

who are not on the board. To know the view of those scholars who are on the board of any Islamic bank we contacted a *Shari'ah* scholar to participate in the discussion and have his say in the debate but he did not reply to the request. The controversy of the *Shari'ah* compliant products is still a debatable issue in the literature as *Murabaha* and *Ijara* are used overwhelmingly as the modes of financing and PLS modes which equity based like *Musharaka* and *Mudharaba* tenets of Islamic finance have been used considerably to a very small extent. The LIBOR interest rate as benchmark in the Islamic banks to measure the value of money and determine the rents on Islamic mortgages created many doubts among the Muslim community. The independence of *Shari'ah* boards in Islamic banks and the nature of mechanism of these scholars are following to approve the financial products from the Islamic perspective also needs to be clarified. Keeping in mind all these issues some questions were raised in the discussion.

Responding to the question to assess the functionality of *Shari'ah* boards, Dr Suhaib Hassan was quite disappointed with their performance and fulfilling the obligations in terms of monitoring the compliance of *Shari'ah* in the financial contracts. He showed his concerns about the independence of these scholars and considered them as the employees of these banks and not independent advisors. In general, the attitude of these members of *Shari'ah* supervisory committee seemed to him as compromising in order to facilitate for the wishes of their employers. Answering a question to participate in such *Shari'ah* boards as a member he said that he did not feel to be competent to be a part of such a board. The participation of UK based and indigenous *Shari'ah* scholars in these banks was a matter of great significance for him and he said that there must be these scholars sitting on the board but only those who are well versed in the *Shari'ah* and also in economics and finance.

Abu Eesa Nematullah had a different view about the performance of these *Shari'ah* boards. His viewpoint was that it is easy to criticise these boards but we wish that they are ethically and spiritually strong enough to resist the commercial pressure to keep passing products continuously. Responding about his personal participation in such a board he said that he was happier with an observing and researcher role rather than giving fatwa. On the UK-based scholars issue he had same positive response like Dr Hassan and he said that in future the UK-based *Shari'ah* supervisory boards would be more useful and active like Al-Qalam Foundation.

Amjid Ali from HSBC had the opinion that these scholars were independent advisors and they were well versed in *Shari'ah* and Islamic finance and their credibility was beyond any question. Aman Sheikh from ABC Islamic Bank had a slightly different view. He agreed to the ability and knowledge of these scholars and he was happy with their role as well to monitor the activities and the products of the bank from *Shari'ah* perspective but he also said something quite openly that if there was any controversy about any financial product then these members of the *Shari'ah* board would not talk about it as they would lose their income.

This is the point where those people who criticise the role of the *Shari'ah* boards raise concerns about the independence of their status using the argument of conflict of interest. But as said earlier, the role of *Shari'ah* board is very sensitive, critical and tiresome in terms of time consumption as it includes reading and approving every single contract of the bank and also their other financial activities and transactions. It is also worth mentioning that in Islamic jurisprudence, the scholars do have different viewpoints on various issues. For example, the issue of *Baye Eenah* is very common and relevant example, it is permissible in the *Shafiee* school of thought but it is not in other schools of thought. Based on such difference of opinion, the scholars try to find any acceptable, helpful and practical way for the shareholders of Islamic banks and the customers which do not contradict with the basic tenets of *Shari'ah*.

Another important point to be discussed here is that the Islamic banking industry is a new industry and there is an extremely small number of the scholars who are well versed in the *Shari'ah* and they also have good foundational background of economic theory and banking and finance. Some scholars and obviously they are big names in the industry and sit on more than 50 *Shari'ah* boards of different Islamic banks. Now the encouraging sign is that some scholars who are highly skilled and knowledgeable in their respective specialities like Sh. Taqi Usmani and Dr. Hussein Hamid Hassan have started passing on these skills to new and young scholars but even then as the demand is huge it will take considerable time when there will be sufficient number of scholars who would be able to serve the industry. The job of the *Shari'ah* scholars is challenging but also rewarding both spiritually and financially.

7.9 The Growth and Development Strategy of Retail Islamic Banking in the UK

An important topic of our discussion in the interview with banking practitioners was the development strategy of UK based Islamic banks providing retail banking products. The basic point behind this discussion was to find out the view of these highly skilled personnel and key position holders in operational and managerial team of the banks. Their views on the growth and development of Islamic banks in the UK, the ever growing market base and clientele of Islamic banking products, the nature of customers and their perception about the products available in the market have a great significance in finding the ground realities of Islamic banking market in the UK.

Islamic Bank of Britain is the only retail Islamic bank which is a standalone and fully-fledged *Shari'ah* compliant bank in the UK. More interestingly, there are only a small number of branches around the country (only 7) and it has one branch in Manchester. There is one premier office in London to cater mainly high net worth clients from GCC countries. The branches are only a way to approach the customers and provide the services, but now there are many other ways and direct channels to approach the customers and sell your products. In case of branches they have to be profit generating to make the business successful. Responding to the question about the development and planning strategy of the bank, Imran Pasha, Head of Marketing and Retail at IBB, said that IBB had been here for last the 7 years. It was established in 2004. The customers' growth was slow and steady; from zero standing in 2004 it has increased to 50,000 in 2011. The retail Islamic banking is growing in the UK, but still there is a lot of room of growth as the most conservative estimates indicate that Muslim population is over 2 million in the UK, but the customers of IBB are only 50, 000. The bank has just over £50 million of assets and £80 million in terms of deposits. The major products provided are home purchase plan and saving accounts from various fixed term to open and accessible accounts.

The customer base is not increasing as it was expected because the products are comparatively expensive and there is a marginal cost attached to these products. Answering a question about uncompetitive products and charging counter fee from the customers, he replied that we have to meet the cost to make the business profitable and he the example of

conventional banks saying that they charge other fees and charges like interest and overdraft but we have to find some other ways to meet the cost of the product. Another argument for charging an extra fee and fixing high deposits, he said that because Islamic banking industry is very small so it doesn't have the economies of scale. Justifying higher deposits for Islamic home finance, he said that we at IBB from the beginning were following a policy of keeping steady deposits like 20% or 30% and that was the reason Islamic banks were not so much affected during the crisis but conventional banks were giving loans of 100% and sometimes even more than 100% of the value of the property which ultimately caused the worst financial crisis of its time.

IBB also offers Islamic mortgage for commercial properties based on the principle of *Ijara Musharaka* and it works in a very similar way as Home Purchase Plan which is used for residential properties. But there is not any buy to let product offered at the moment. The business finance is based on *Murabha* and it is a facility to provide some working capital for running businesses and rather than providing finance on the basis of equity partnership, through a trade transaction, a commodity is sold to the customer like a precious metal and then the customer agrees to pay back a pre-determined and fixed instalment on a monthly basis. Responding to a question about the controversy of *Tawarruq* as a tool of financing for personal finance, he said that it is approved by our *Shari'ah* committee and it is a known fact that *Tawarruq* is not an ideal form of financing but in the absence of any other feasible alternative in the market it is permissible. Justifying his argument for using *Tawarruq* as a tool of personal finance he said that it looked very simple and somebody could say that why did the bank not involve directly in the trade transaction, buy a car and sell to the customer. In reality it was not so simple as it involved many complications like the treasury, the bank code, the VAT and the treasury rules and regulations. There is another major factor, the cost of possession and delivery of the product and risk involved in the process of transaction which is the major reason why Islamic banks do not get involved directly in the process of trade transaction. But these issues are not more often discussed by the banking practitioners in Islamic banking industry as it does not give a good name to the bank if it does not take risk and shares only in profit.

The growth and development strategy at HSBC Amanah was discussed with Mr Amjid Ali. His point of view was almost very similar to the Head of Marketing at IBB, Imran Pasha.

HSBC Amanah is a worldwide Islamic window of a giant British conventional financial institution. The contribution of HSBC Amanah in the UK made Britain No.7 in the ranking of Islamic financial markets of the world. The share of Islamic finance in the UK is much bigger than many Muslim countries with vast majority of Muslim population like Pakistan etc. The development and growth of HSBC Amanah is worldwide and it is operating in a large number of countries in Europe, America, Africa and Asia.

Responding to a question about growth strategy and regional development, Amjid Ali said that based on the potential market and customer base all countries of the world have been categorised into three different parts called Tier 1, Tier 2 and Tier 3 market. In Tier 1, there are countries like Saudi Arabia, Middle East, Malaysia, Indonesia and Bangladesh and that is the top priority area. In Tier 2, there are countries like UK, Qatar, UAE all these are small sectors but they are growing segments with purchasing power. In Tier 3 the rest of Europe and China etc. in terms development strategy in the UK and other European countries, Amjid Ali said that our core priority is Saudi Arabia, Middle East, Malaysia and Bangladesh. Once we have established there then we can move to other geographies.

In terms of growth and product development, he said that on a global basis the business of HSBC Amanah was growing significantly and it had won many awards to be the best Islamic finance provider of the world. But in the UK and European markets, we had to make sure about the genuine need of the product, also how much was the rate of take up if a product was launched, and what was the break even cost of the product etc. He said that it was not wise to rush into the market without any proper research and make the decisions based on assumptions. The bitter experience was when HSBC Amanah was launched initially in 2003 and the expectation was that there would be queues for it but that was not the case. Also when the Takaful insurance policy was launched it had to be withdrawn from the market as there was not significant demand for it. In terms of performance and demand for the Islamic banking products he said the North of England had shown the best performance. The number of applications in the north is much greater, almost double, than any other part of the country, namely the south, London and other surrounding areas. But the value of the business in London is twice as compared to the North due to higher values of the properties. The Midland area has not shown any significant demand for the products of HSBC Amanah. Mentioning about the operational team, Amjid Ali said that there were 23 predominantly

Muslims HSBC Amanah managers located in key site locations like London, Birmingham, Manchester, Leicester, Bradford etc. There is also a team of business development managers which have an extra job of going to the community, speaking to the influencers, imams, scholars and community leaders and do the presentations.

The reason behind a small range of products at HSBC Amanah in the UK was discussed with Amjid Ali. Apart from other factors as mentioned earlier, he gave a strategic reason behind this and said, 'HSBC Amanah is strategically important but not a priority'. This statement can clearly define the policy of the institution in terms of its development strategy. The same is true with resources and funds, as he said that Islamic products fall at the bottom of the list when the resources are allocated and funds are distributed for designing and developing various products and services. But as mentioned earlier, when the IT infrastructure would be better and unified in the bank then the Amanah team of the bank has the aspiration to bring more products especially for SMEs and business customers by 2012. At the moment there was not any product available for small and medium term enterprises.

Discussing the future prospects of growth of Islamic banking in the UK and what are the challenges and practical issues the industry is facing. Mr Imran Pasha was hopeful that there are lots of potential and opportunities for all the parties concerned and the future of Islamic banking is bright in the UK and everywhere else as the market base is increasing but the point to be discussed is that how this market is served and how the customers are approached for selling the available products and how more products are designed and developed to meet the needs of the market.

The growth of Islamic banking also depends on educating the Muslims and creating awareness about Islamic banking among the wider community. It is another significant factor to be looked at. For example, he mentioned, everybody knows that there are five time prayers in Islam which everybody has to offer but not many people virtually offer these prayers in their practical lives for one reason or another. Similarly everyone knows about the prohibition of interest in Islam but still the majority of the people have bank accounts with conventional banks. Islamic banking will grow when the banks, the community leaders like imams, other community organisations and institutions work together and make the Muslim community

realise that there are alternative channels and substitute ways which are compliant with their faith without sacrificing any aspect of their finance.

On part of regulators and authorities there also has to be a leveled playing field and of course it will take time, resources and investment from community and organisations and from regulators. It is a long term strategy and it is not going to happen overnight.

7.10 Summary

The chapter contains one of the most important empirical works in the thesis and it elaborates very significant and remarkable views of the participants coming from various walks of life; like Shari'ah scholars, Islamic banking practitioners, politicians and community leaders. In their interview responses, the majority of the participants, surprisingly including Non-Muslim Christian faith leaders had a unanimous viewpoint that Muslim community needed genuinely such banking and financial services which were in accordance with their *Shari'ah* principles. To them, Muslim community is a faith-based community and Islamic faith has a vital role to play in the practical spheres of individual's life. Economic activities and financial behaviours of the Muslim community do require a financial system which is based on prohibition of interest and absence of *Gharar*. So, Islamic banking in the UK is a concept of community banking driven by the needs of a faith based community which takes faith as an integral part of their life style.

The British authorities; the government, the FSA and the Bank of England have realised the fact that Islamic banking industry is a growing financial sector worldwide and it is a genuine need of the Muslims in Britain to avail such banking and financial services which are based on the injunctions of Islamic *Shari'ah*. Apart from one Shari'ah scholar Dr Suhaib Hassan, all the participants in the research project agreed that the role of the government and financial and banking authorities in Britain had been very supportive and helpful to allow and flourish Islamic banking industry in the UK.

Discussing the issue that to what extent the available Islamic banking and finance institutions in the UK are catering the financial needs of the Muslim community, the participants had different opinions and there was a manifest division between Islamic banking practitioners on

one hand and Shari'ah scholars and community leaders on the other. The banking practitioners, with one exception (Mr Aman Sheikh) had the view that under the circumstances what the Islamic banks were providing in terms of banking services and financial products was not bad. The limited market of the customers and the limited resources of the financial providers were the major factors behind this limited range of Shari'ah compliant banking services and financial products in the market. The community leaders and Shari'ah scholars had the view that in the housing market Islamic banking and financial products were available but there was a desperate need to provide Shari'ah compliant financial products in the business sector particularly for small and medium enterprises.

The Islamic banking practitioners had the aspiration in terms of their development strategy that with the passage of time as the market segment of the potential customers and the available financial resources grow, the provided banking services and financial products would also increase. Lack of education and scepticism about Islamic banking products were also discussed by the bankers to aggregate the factors behind a small segment of Islamic banking market. On the other hand, other participants raised the issues of larger range of products specially business products, competitive prices of the products, reasonable terms and conditions for the accessibility of the products, crystal clear information and good quality services on the part of Islamic banking and finance institutions.

Discussing the potential of Islamic banking industry to prevent the financial crisis in the global economy, it was discussed by the banking practitioners that although, Islamic banking industry was growing very fast at a double digit growth rate, but comparatively to the conventional banking industry of the world it was only one percent. So, Islamic banking industry is an alternative but not a replacement of the conventional financial sector of the world.

The role of *Shari'ah* boards of Islamic banks and the issue of *Shari'ah* compliance of financial products were also discussed and the participants did have a difference of opinion on these issues. The Shari'ah scholars and the community leaders raised their concerns about using the controversial principles in Islamic finance like *Tawarruq* etc. The banking practitioner of the Islamic bank providing personal finance based on this principle also agreed that it was not a best option but he said there was no other choice. The challenges which the

Islamic banks are facing are multidimensional but the issue of Shari'ah compliance in principle has to be addressed in principle to remove the scepticism among the customers.

In spite of all these issues and concerns which have been mentioned above, it is not difficult to conceptualise that the Islamic banking and finance industry in the UK is growing at a steady pace and it provides an alternative financial arrangement to those devote fellow Muslims of the country who will remain excluded from the financial system if they are not provided with interest free and Shari'ah compliant financial products. As the market is growing and the awareness is increasing about this alternative banking system both the bankers and the customers will gain the benefit and the economy will grow from socioeconomic perspective.

Conclusion

8.1 Introduction

In this chapter, a summary of the whole thesis is provided for an overall and comprehensive picture of the entire research project. It is the most important chapter of the whole thesis. It reflects the justification of the research project by mentioning the extent to which the aims and objectives of the research have been obtained. The summary of foundational chapters gives the background knowledge of the thesis and explains why this research was useful. The methodology of the research and the tools employed provide a logical flow of the thesis.

The findings and analysis of the results have been presented briefly to conclude the whole dissertation and suggest some recommendations to the policy makers, community leaders and providers of banking and financial products in the market. It also elaborates the limitations of the research project and the resulting potential biasness in the results that can be avoided in future research studies. In the end some further and relevant research questions have been posed to carry on the process of research which continues for ever and never ends anywhere.

The thesis consists of two major components; the first four chapters are foundational chapters and they give background of the research project and the last four chapters constitute the empirical work.

8.2 Summary of the Thesis' Chapters

The first chapter is about introduction of the thesis. It states the importance of the subject matter and tells about the fastest growing industry of Islamic banking and finance in the financial world. The role of United Kingdom as a hub of Islamic finance industry in the western world has been discussed. The considerable segment of Muslim population in the UK can exemplify the expanding domestic market for Islamic banking and finance in the UK. The aim and objectives of the research project were mentioned unequivocally to give the reader a clear understanding of the potential area of research. The research questions were described briefly to elaborate on the objectives of the research. The rationale for the structure

of the thesis and the outline of chapters were also explained to give the reader a brief review of the proposed research project.

In second chapter, the theory and practice of Islamic banking have been mentioned in detail. The theoretical concepts based on the ideology of Islam like the concepts of *Tawhid*, the revelation, the prophet hood and the hereafter, which represent the foundation of Islamic banking, were discussed. Similarly, the concept of prohibition of interest and the pursuit of social justice in Islam was elaborated in terms of prohibition of *Gharar*, *Maysar* and *Haram* trade transactions. Under this discussion, various interpretations of interest and its meanings from Islamic perspective and some fundamental theories of interest in the history of economic literature were given to inform the reader about the major concern of the Islamic banking system.

A detailed section elaborates the concept of *Shari'ah* and its pertinent issues like the uniqueness of the law of *Shari'ah* as a revealed law, also its origins; *Qura'n*, *Hadith*, *Ijma'* and *Ijtihad*. An interesting component of this discussion was the debate of *Shari'ah* law in the UK which became very hot issue after the thoughtful statements of Dr Rowan William and Chief Justice Lord Philips in 2008 about the recognition of some aspects of the law of *Shari'ah* in the British judiciary and legal system. The commonalities and disparities between law of *Shari'ah* and English Common Law were mentioned briefly to conceptualise the pertinent recognition of these concepts in the law of the land for a better understanding of the Islamic banking system.

In the last but not the least, the principles of Islamic finance which constitute the common practices, operations and the development of the financial products of Islamic banking system were discussed in terms of *Mudharaba*, *Musharka*, *Murabaha*, *Ijara*, *Ijara Wa Iqtina* and *Ba'y Salam*, *Wakala* and *Qardh Hasan* etc.

The third chapter reflects upon the justification of the Islamic banking system in the UK from a socio-economic perspective. In the past many empirical studies extensively and broadly discussed the economic role of banking and financial institutions as a vehicle of financial intermediation leading to growth and economic development. But the social role these banking and financial institutions can play in building a coherent, integrated and peaceful

society, apart from economic prosperity and growth, is a new development in the discipline which attracted the attention of the academia only a couple of years ago. The chapter explores the potential of Islamic banking and financial institutions to build a coherent society which is based on financial inclusivity and pluralism.

The presence and ever growing considerable segment of Muslim population in the UK and their social, cultural and religious identity require a faith based banking system which is compatible with their beliefs and values. The demographics of the Muslim population and the ideological differences mentioned in the chapter supported the argument that the Islamic banks can produce a drastic and positive impact. Having discussed the various causes of social unrest and political instability in any society it was suggested by social scientists that the minorities need to be given the feelings of being stakeholders in the society. In the light of a wider discourse it was stated that Islamic banking could be an opportunity for the British economy and it could help to build a coherent society as well.

The fourth chapter constitutes another significant foundational chapter which is intended to explore the local financial market in terms of available *Shari'ah* compliant banking and financial products. A detailed and critical description of the pertinent Islamic banking services and financial products has been provided. The chapter consists of three major sections; the first section elaborates the services and products provided by standalone and full-fledged Islamic banks like IBB, EIIB, BLME, ABC Islamic Bank, Gatehouse Bank, and European Finance House which has changed its name to Qatar Islamic Bank UK in August 2010. The second section is related with those traditional retail commercial banks which have effective and popular Islamic windows where Islamic financial products are offered; like HSBC Amanah, United National Bank, Lloyds TSB, RSB, and NatWest etc. The third section is related with non-banking financial sector where a brief description has been provided to familiarise with those private financial organisations which work as independent finance companies regulated by the FSA and they limited a range of Islamic financial products; like *Ansar* Finance Group, *Al-Amin* Finance Company and 1st Ethical Group etc.

The fifth chapter is the first chapter of second part of the thesis that constitutes the empirical part of the research thesis and it is related with research design and methodology. The chapter elaborates the tools and methods which were used in collecting the data for my research

project. In the beginning, a brief description of research was also given; its meanings and various types and I also differentiated between research methods and research methodology. The basic concepts of sampling and population were considered as well. There is a mention of two major research tools in this chapter which were used in the data collection process of my research project; survey questionnaire and semi-structured interview. The justification of using these tools of research was also given by discussing the comparative advantages and disadvantages of using these tools. It was also intended to discuss the reliability factor and biasness of the data to authenticate the pragmatic results of the research. The limitations and the problems faced by the researcher in the data collection process were also discussed briefly.

The sixth chapter is one of the two major chapters of the thesis which constitute the empirical work of the research. It is focused on the survey questionnaire and critical analysis of the survey's results of my research project to address the issues of research questions. The presentation of the data collected and the calculation of the results were produced by using the STATA, a comprehensive statistical package which is used for statistical analysis in social science studies. In the beginning of the chapter the survey questionnaire's contents were mentioned briefly. The chapter has been divided into three main sections; profile analysis, discriminate analysis and views of the respondents about some important issues of the Islamic banking in the UK. The results and findings and their revealed suggestions are intended to be discussed in the section of findings and conclusions of the conclusion's chapter.

The seventh chapter is also crucial chapter from the empirical work of my research project. It is focused on the analysis of the interview results. Apart from the survey questionnaire as a research tool of collecting the data I also used semi-structured interviews for open ended questions to collect wider and more comprehensive information. The interviewees who participated in the research project were renowned *Shari'ah* scholars, top-most Islamic banking practitioners who had decisive positions in their respective banks, and community leaders including a member of parliament. Their views were analysed in a critical way and the detailed findings were presented in the chapter. The summary results and findings are intended to be discussed in the following section of the current chapter.

8.3 The Research Findings and Conclusions

The findings and the results of the research have been presented in a more technical and analytical way in the chapters 6 and 7 where the major issues of my research objectives have been addressed in the form of questions of survey and interviews. In this section I will summarise the main research findings intending to present some policy recommendations. The main research findings related with research objectives are given below as bullet points. Here it is worth mentioning that apart from my own empirical results which I obtained in my personal research project, I also got benefit from the findings and the results of some previously conducted research papers related to my research topic with the reference mentioned and cited accordingly in the bibliography.

1. The Islamic banking and finance industry is growing tremendously around the globe at an unprecedented pace as compared to any other financial activity and it is estimated that in next few coming years this pace of growth will sustain the momentum and it will attract more savings of not only the Muslim community around the globe, but also the non-Muslim community who are conscious of ethical and ‘green banking’ and they are not satisfied with the current interest-based banking system of the world which has caused for many reasons frequent financial crises in the past. The United Kingdom is not an exception in regard.
2. The role of United Kingdom has been exceptionally supportive and positive in promoting the Islamic banking and finance industry in the UK, in particular and in the west in general, and there has been clear evidence on the side of the British government and other local regulatory authorities like the Bank of England, the Financial Services Authority and HM Revenues and Customs. The government has taken the step forward to such extent that some legal and structural changes have been introduced in the banking and financial system of the country to make London as a global centre of the Islamic banking and finance industry. In the whole western world, there is only one retail standalone Islamic bank regulated by the central bank of the country and it is the Islamic Bank of Britain.
3. The Muslim community in the UK is a faith based community being sturdily conscious of their cultural and religious identity and sufficiently aware of their

religious obligations particularly in the spheres of their marital and financial behaviour. The Muslim population in the UK is a considerable segment of the total population of the country (3%) and their ever growing population (40,000 registered births annually) is a sign of being major ethnic minority of the country in future. The survey results suggested that 93% people had the view that Islamic banking provided for the genuine needs of the Muslim community.

4. The prohibition of interest in Islam is the major cause of an alternative banking and financial system which has emerged from and provided for the needs of the faith based Muslim community that does not want to get involved in those financial transactions which are interest-based and not compatible with the *Shari'ah* legal framework. Because to deal with interest based financial transaction is not only a major sin for the devout Muslim community but it is regarded so severe to be equivalent to declare war against Allah the Al-Mighty and His Messenger. The results suggested that 43% respondents wanted Islamic banking and finance only for the reason of prohibition of interest. If other indirect reasons are included like Halal mortgages, Halal business finance, Halal insurance and *Shari'ah* compliance then it goes up to 83%.
5. The Islamic banking and finance in the North West of England in particular and in the UK in general is a community based banking driven by the financial needs of the customers from the Muslim community and it was intended to meet the financial needs of this community which have diverse financial needs like any other segment of the market in terms of bank accounts and financial products like housing, personal and business finance. The Islamic banking and finance system is an alternative and not a replacement of the traditional banking and financial system in the UK or anywhere else and its proportion is very small as compared to the traditional counterpart.
6. The growth of Islamic banking in the UK, in spite of all the supportive policies of the government and regulators, has not been very effective in terms of attracting a larger segment of the Muslim audience in the market and producing some socio-economic changes in the living conditions and business and economic activities of the Muslim community. The IBB has only 50,000 customers and HSBC Amanah has 200,000

customers approximately in last 8 years, which is a very small proportion in comparison with traditional mortgage customers' segment in the UK market that numbers 12 million customers.

7. The aforementioned statistics and the survey results suggest that the potential of Islamic banking and finance in the UK has not been effectually achieved. There are many reasons behind but the most prominent and influential one is that the prevailing Islamic banking and financial products and services have barely succeeded to satisfy the diverse financial needs of the Muslim community in the UK. The survey results suggested that 82% people showed their dissatisfaction about the prevalent Islamic banking and financial products and services in the North West of England.
8. The dissatisfaction of the customers about Islamic banking and financial products has many reasons behind it. The scepticism about the authenticity of *Shari'ah* compliance is a major concern of the customers. The vast majority of the people do have the opinion that the mechanism of interest in the traditional banking system and the pre-determined return-based financial products offered by Islamic banks are really different in nature. There is particular concern about using the monetary value of LIBOR as a benchmark. People take it as merely a change of name and nothing else. The survey results suggested that 63% people agreed that financial products provided by the Islamic banks or Islamic windows of traditional banks are doubtful. The customers want to see more profit and loss sharing (PLS) based partnership oriented products which are hardly available in the market. Surprisingly, the only retail Islamic bank, the IBB has business finance on offer in the market but it is not based on *Mudharaba* or *Musharaka*, it is based on *Murabaha*.
9. The limited range of financial products provided by the Islamic banks or Islamic windows of traditional banks and extra marginal cost of these limited available products made the Islamic banking and financial products comparatively more expensive and relatively uncompetitive. Therefore these products and services have not been successful to attract a lot of customers from the market. The survey results suggested that 86% people expressed their views that the *Shari'ah* compliant financial products were not competitive. The *Shari'ah* banking practitioners said that the demand was not as huge as expected when the products were launched and the

customers had the opinion that the range of available *Shari'ah* compliant products was very small and there were not sufficient products to meet the needs of the customers.

10 The available *Shari'ah* compliant financial products on offer in the market are not accessible to many customers because there are very strict terms and conditions for funding. Much documentation is required for any application to go through. The only retail Islamic bank in the market, IBB does not accept any application even for a current account unless there is not initial deposit of £500. Similarly very high deposits are required for mortgages and business finance and saving accounts. So, apart from the limited range of products, the available products are not in the reach of the less affluent and economically disadvantaged people. The creditworthiness is also an issue related to the accessibility of these products to the customers. The issue of SMEs business products and microfinance services is also impeding to achieve the optimal potential of Islamic banks in the UK.

11 In spite of all these issues discussed above, the fact remains that the Islamic banking and finance in the UK is a great opportunity to achieve higher economic growth, more economic stability, and build a coherent multicultural society with more options and financial alternatives to a wider community in the country and not only for the Muslim segment of the population. The vast majority of the respondents expressed their views that the provision of Islamic banking and finance as an alternative would make the Muslim community feel that they are stakeholders in the society and their religious beliefs are respected by others and their unique financial needs are catered for by the state. The research reveals the fact that the social role of Islamic banks in the UK can be much more crucial than the economic one which cannot be underestimated as well. The detailed results have been provided in the last section of chapter 6 where the survey results were analysed

8.4 Recommendations for the parties concerned

Based on the revealed facts previously mentioned in the section of research findings, now I can suggest some basic and significant recommendations to improve the performance of Islamic banking and finance institutions in the UK so the role of these institutions being

played effectually and more vigorously. Here it is worth mentioning that the performance of Islamic banking and finance in the UK from a socio-economic perspective is a multifaceted and complicated issue with many reasons working behind as it has previously been mentioned.

Among these reasons are; scepticism, availability of small range of the products, extra marginal cost of the products, less access of the customers to these products, little knowledge and less awareness of the people about Islamic finance and these products, low credit worthiness of the less affluent and financially excluded segment of the market etc. Therefore it requires more sophisticated and comprehensive solution rather than suggesting one single solution as magic stick to improve the situation overnight.

8.4.1 *Shari'ah* Compliant Finance Providers

The major responsibility lies on the providers of Islamic banking and financial products and Islamic financial institutions to deal with the issue that why the current services and financial products are not meeting the needs of the Muslim community. From business point view, it is their responsibility to satisfy their customers because the FSA regulation TCF (Treating Customer Fairly) is central at the agenda of delivery to the customers.

Therefore, the Islamic banks or any other financial institutions providing *Shari'ah* compliant financial products and services are supposed and recommended to arrange the educational seminars for the community leaders and awareness programmes and campaigns to educate the people in the wider community about the phenomenon of Islamic banking and finance and how it works and what products are available on the offer in the Market. As they commercially benefit from the industry they also need to invest in education, product designing and development and market research.

Additionally, there must be intensive and more comprehensive educational programmes for the staff of the Islamic banks or *Shari'ah* compliant finance providers to make them well-versed in the fundamental principles of Islamic finance. I was shocked when I met a local branch manager of traditional bank that was also providing *Shari'ah* compliant financial products and asked him for interview and he said that he was not well-versed in Islamic finance. Later my astonishment knew no bounds when I was told that this gentleman before

joining this traditional bank was the local manager of the IBB branch in the same city for more than a year.

Also, it would be more beneficial if they could recruit staff from the community they are serving and in particular Muslims. The HSBC Amanah Global Head told me the difference it made when they appointed such staff in their local branches.

The most important improvement these providers need to work on is the provision of more *Shari'ah* compliant financial products and services to meet the needs of the customers. At the moment the range of products is very small and furthermore these available products have so many conditions and requirements that it is hardly possible for the customers with low incomes to get the benefit of these products and services. More options for housing finance like buy to let and business finance based on PLS modes of financing have to be introduced for SMEs. As previously mentioned, the Islamic banks and *Shari'ah* finance providers commercially benefit from the industry, they also need to invest in education, product designing and development and market research to operate these institutions more effectively.

8.4.2 Regulators and Public Sector Organisations

The policy makers and regulators like the FSA, the Bank of England, the government or any public sector organisation which is involved either in the sphere of financial and economic affairs or even the social affairs need to work together with the providers of *Shari'ah* compliant financial products and services, community organisations and local community leaders particularly the Imams of the major mosques in different cities as their role could be more influential in mobilizing the public opinion.

The regulators' job does not finish when the Islamic banks or other providers of *Shari'ah* compliant products are authorised to provide these products by the issuance of a licence, but these public sector organisations need to have a policy in place where they can monitor the performance of these institutions and make sure that the objectives are being achieved particularly not only in economic and financial spheres, but also in the social perspective, as it is also equally important.

So far the regulators have been generous to support this industry but they also need to ensure that the benefits are being given to the public for which these financial intuitions have been granted permission.

8.4.3 Community Leaders and Private Sector Community Organisations

The local community leaders, Imams, councillors, MPs and other social and community leaders also need to raise the awareness for the benefit of economically disadvantaged people in the community. The educational side of the problem cannot be solved without the involvement of these influential elements of the community. The role of the Imams could be the most effectual and decisive one in this regard as the matter is related with religious guidance and the prohibition of interest and its consequences can be elaborated more effectively in the Friday sermons where thousands of the people come and join the congregation for their weekly Friday prayer.

The public sector organisations along with *Shari'ah* compliant financial services providers need to liaise with the community leaders and Imams to arrange the public campaigns for more effective delivery of the services provide. The Muslim community leaders need to take it as a religious obligation to help the poor and the needy in the community. They also need to support the projects of microfinance undertaken by the Islamic banks and financial institutions. The option of microfinance will enable the community to develop trust in the financial institutions and the financial institutions would also increase their faith in the less affluent members of the community and ultimately it will lead to the better performance of the Islamic banks and the financial inclusivity of the excluded segment in the community. The Muslim community can also work in this regard with other ethnic minorities and economically disadvantaged segments in the society.

8.5 The Research Limitations and Further Research Ideas

Like any other academic research, my research project had some limitations and constraints which definitely affected the results of the research and final conclusions. The resources available to the researcher were very scarce and insufficient to collect the data. Mostly the data was collected from the Masa'jid and the local Islamic bank. The biasness of this particular group of the respondents would have influence on the results of the survey.

In spite of all the possible efforts the researcher could not succeed to interview any *Shari'ah* scholar who was sitting on any *Shari'ah* board of an Islamic bank. The doubtful and disputed issues like *Tawarruq* and using *Murabaha* even for business finance were to be discussed to know their views but all those who were approached them did not reply.

The time constraint was a major issue in the collection of the data as the number of respondents could have increased if the survey questionnaire was designed more intensively and addressing the specific areas of interest. The majority of the people are not fond of participating in such research projects where the survey is lengthy. There was not any previous literature discussing the social aspect of Islamic banking in the UK.

Keeping in mind these points which I have stated above, I can think of some further research areas where future researcher can work to improve the results contribute to bring a positive change.

The correlation between financial and social performance of Islamic banks can further be studied with more specific areas and wider resources for research. Although we have very limited research discussing the financial and economic aspect of Islamic banking in the UK, but the social role of this newly banking system has almost been neglected and needs to be explored in more specific way. For example,

- Regression analysis between social and economic/financial performance of the Islamic banks in the UK
- Correlation between business and economic activity of the less affluent and provision of Islamic microfinance in the UK
- Dealing with social problems like extremism and radicalisation through providing Islamic banking and financial services to the unemployed Muslim youth in the UK
- Financial inclusivity and pluralism and Islamic microfinance in the UK

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Email

Date: 2011

Appendix

Survey Questionnaire

Islamic Banking and Finance in NW (UK)

This questionnaire is aimed at collecting information about Islamic banking and finance in the North West of England. It is a part of the research for a PhD programme at Durham University to study the socio-economic impact of Islamic banking on Muslim and wider community in the UK. If there is any part irrelevant to you then leave it blank. The personal information in the questionnaire will be treated with extreme confidentiality. Your participation in the questionnaire will be highly appreciated.

Part One

Faith: Muslim , Non-Muslim Gender: Male Female

Age Group: 15-25 , 26-35 , 36-45 , 46-55 , 56-65

Annual Average Income: \geq £ 20,000 , \geq £ 40,000 , \geq £ 50,000 , \leq £ 50,000

Occupation: - - - - -

Nationality: - - - - -

Ethnicity: - - - - -

City/Town: - - - - -

Part Two

Q. 1. What type of bank account do you have?

a) Personal , Business , None

b) Islamic , Convention , Both , None

c) Current , Saving , Investment , None

Q. 2. Are there any Islamic banks/ Islamic banking services in your city/town?

Yes No

Q. 3. Do you think there is a demand for Islamic banking and finance in the UK?

Yes No

Q. 4. If “Yes” then for what reasons?

- - - - -

Q.5. Does anyone in your family or friends have an Islamic account?

Yes No

Q. 6. Would you recommend an Islamic account to somebody else?

Yes No

Q. 7. What kind of finance do you have?

a) *Sharia'ah* Compliant , Conventional , None

b) Housing (Mortgage) , Business , Personal

Q.8. If you have *Shari'ah* compliant housing/ business/ personal finance then who is the provider?

a) Islamic bank b) Traditional bank c) Private finance company

Q. 9. Do you see any difference between an Islamic and conventional mortgage?

Yes No

Q.10. Do you understand the technical differences and mechanisms of Islamic mortgages?

Yes No

Q.11. Do you think the deposit and cost of Islamic mortgages are competitive?

Yes No

Q.12. Are you satisfied with terms and conditions of Islamic housing finance?

Yes No

Q.13. If you have personal Islamic finance is it based on *tawarruq* (Reverse Murabaha)?

Yes No

Q.14. Are you aware of any controversy of *tawarruq* as a method for personal Islamic finance?

Yes No

Q.15. Are you satisfied with principle, terms and conditions of *tawarruq*?

Yes No

Q.16. If you have Islamic business finance is it based on ?

Musharaka *Mudharaba* *Murabaha*

Q.17. Are you satisfied with the principle and terms and conditions of Islamic business finance?

Yes No

Part Three

Q.18. What are the factors you take into consideration in the selection of a bank? Please rank from most important to least important.

(Basics) (1 is most important and 5 is least important)

- 1. Reputation
- 2. Location and parking
- 3. Efficiency of the staff
- 4. Timing (opening and closing hours)
- 5. Online service

(Marketing) (1 is most important and 5 is least important)

- 6. Recommendation of friends and relatives
- 7. Media advertising
- 8. Professional advice and financial counselling
- 9. Friendly staff
- 10. Shariah compliance

(Services) (1 is most important and 5 is least important)

- 11. Availability of credit
- 12. Low service charges
- 13. Over drafts
- 14. Returns on deposits
- 15. Night deposits

Q. 19. Any other reasons? (Please specify)

Q. 20. To what extent are you aware of the following Islamic banking products?

Islamic Banking Products	Fully Aware	Little Awareness	Fully unaware
Islamic Current Accounts			
Islamic Saving			

Accounts			
Islamic Investment Accounts			
<i>Mudharaba</i>			
<i>Musharaka</i>			
<i>Murabaha</i>			
<i>Ijara</i>			
Beneficent Loan			

Q.21. Are you aware of any other Islamic banking products? (Please specify)

Q.22. What other type of Islamic banking products would you like Islamic banks to offer? (Please specify)

Q.23. Which factors would motivate you to deal with an Islamic bank?

Item	Strongly agree	Partially Agree	Impartial/ Indifferent	Partially Disagree	Strongly Disagree
Shariah compliance					
Ethical concerns					
Returns on deposits					
Dealing with other Muslims					
Conducting business in					

Urdu/Arabic					
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Q.24. Any other factors? (Please specify)

Q.25. To what extent do you agree to the following statements and vice versa?

No	Statement	Strongly Agree	Agree	Impartial/ No View	Disagree	Strongly Disagree
1	There is a genuine need of Islamic banking in the UK.					
2	Islamic financial products are essential for the Muslim community.					
3	Islamic financial products will help my living.					
4	Islamic banking will help my business.					
5	Islamic banks will increase social cohesion and national integrity.					
6	IFIs will help improving multiculturalism and inclusiveness					
7	IFIs will engage the Muslim youth in active economic participation.					
8	IFIs will make Muslim community stakeholders in society.					
9	Islamic banks will decrease radicalisation and extremism.					
10	IFIs will not cause division rather they would promote harmony in					

	society.					
11	Dealing with Islamic banks can cause marginalisation of Muslims.					
12	The <i>Shari'ah</i> compliance of IFIs is not one hundred per cent perfect.					
13	The PLS system in Islamic banks has practicality issues.					
14	Muslims have doubts about the banking products of IFIs.					
15	Majority of Muslims think that it is only a change of name.					
16	The IFIs' employees are not fully aware and competent in the field.					
17	The IFIs are not meeting the financial needs of Muslims					

Q. 26. Any other comments about Islamic banks (please specify);

A:-

B:-

C:-

Semi-Structured Interview Questions

Generic Questions

Q.1. What is your opinion about involving faith in banking?

Q.2. To what extent do you agree that Muslim community in the UK needs Islamic banking?

Q.3. Do you think that Islamic banks are catering the financial needs of Muslim community?

Q.4. How do you see the role of Islamic banks in the context of the prevalent conditions of Muslim community from a socio-economic perspective? Specifically, do Islamic banks help in employment and business?

Q.5. What is your opinion about the support or lack of support by the regulatory authorities, like the FSA and the Bank of England for Islamic banks?

Q.6. Do you think that the coalition government is taking necessary actions to cater for the financial needs of Muslim community? Has the coalition government played a more or less active role than the previous Labour government?

Q.7. What do you say about the suggestion that Islamic banks can help reducing the occurrence of credit crunches and financial crisis as they operate asset based financing?

Q.8. Do you think that mismanagement and irregularities of interest based financial system has caused havoc in the global economy?

Specific Questions for *Shari'ah* Scholars

Q.9. What is your opinion about the acknowledgment of *Shari'ah* judicial system in critical spheres of life like the marital, the inheritance and the financial?

Q.10. Are you satisfied with the compatibility with *Shari'ah* and the Islamicity of the financial products provided by Islamic banks?

Q.11. Do you believe that the products offered by Islamic and traditional banks are same, and it is only a difference of name?

Q.12. What is your assessment about the functions of *Shari'ah* advisory boards in Islamic banks?

Q.13. Would you like to participate in such a board, as a *Shari'ah* scholar, to supervise the compliance of *Shari'ah*?

Q.14. Should the *Shari'ah* boards in the United Kingdom select at least some of their members from the local community?

Specific Questions for community leaders/ politicians

Q.15. Do you think that Islamic banks in the UK can help in achieving cohesion and solidarity

Q.16. Do you think that the availability of Islamic financial products will increase employment and job opportunities

Q.17. What is your stance about the notion that Islamic banks will help combating radicalisation

Q.18. What is your view on the notion that Islamic banks will cause marginalisation of Muslim community

Q.19. How do you see the bailing out and rescuing operations for the traditional banks like Northern Rock and RBS Group by the government taking interest based loan?

Q.20. Do you think that foreign policy and military involvement has constituted to the substantial deficit in the government finances? (Over £20 billion spent in Iraq and Afghanistan war)

Q.21. How do you view the spending review of the coalition government? Is it a right step forward?

Q.22. How do you see the cuts in spending and the budget deficit, will it affect welfare benefits, education and health services?

Q.23. Do you believe that high tuition fees will result in young British Muslims being excessively indebted?

Specific Section for business community

Q. 24. What is your opinion about increased unemployment, redundancy and forced reduced working hours as a result of the new government policy? Will it affect the Muslim community and can the Islamic banks fill in the gap?

Q. 25. Do you think the excessive regulation and tightened immigration policy of the government adversely affects the business of Muslim community?

Q.26. What would you like to suggest to improve the current economic situation with special reference to Islamic banking and socio-economic conditions of Muslims in the UK?

Q.27. What role, in your opinion, have the authorities and the state to play in the establishment of just, peaceful and prosperous multicultural society in the UK?

Thanks for your time and sharing your views