

UNIVERSITY OF NAIROBI

DEPARTMENT OF SOCIOLOGY AND SOCIAL WORK

**AN INVESTIGATION INTO THE COMPATIBILITY OF ISLAMIC
BANKING WITH CONVENTIONAL BANKS: A STUDY OF TWO
COMMERCIAL BANKS IN NAIROBI CITY.**

BY

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DECLARATION

STUDENTS DECLARATION

I declare that this research project is my original work and has not been submitted to any other university for an academic credit.

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APPROVAL BY SUPERVISOR

This research project has been submitted with my approval as the university supervisor.

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DEDICATION

I am dedicating this research project to my family for the continued support and encouragement during my studies.

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ABBREVIATIONS AND ACRONYMS

AAOIFI.....Accounting and Auditing Organization for Islamic Financial
Institutions

CB.....Conventional Bank

IF.....Islamic finance

IW.....Islamic window

PLS.....Profit and loss sharing

SASB.....Shariah Advisory and Supervisory Board

DEFINITIONS OF NON-ENGLISH WORDS

Gharar.....Uncertainty

Halal.....Lawful

Haram.....Prohibited

Ijm'a.....Consensus of the Muslim scholars

Maslah.....Well being

Riba.....Interest

Shariah.....Islamic law

ABSTRACT

Islamic banking is based essentially on the principle that interest is strictly forbidden in Islam, whereas, interest is the main source of income in conventional banking. On one hand the banks charge interest on borrowers at a high rate while they pay the depositors at a low rate which is an issue for Muslims who adhere to their faith even in banking issues. Thus the main purpose of this study was to investigate into the compatibility of Islamic banking with conventional banks with reference of two commercial banks in Nairobi city (Chase Bank which has Chase-Iman and National Bank which has Al-Amanah). Specifically this study focused on salient features of Islamic Banking, distinction between Profit and Interest, the role of the Shariah advisory and supervisory board and the challenges facing the Islamic Windows within conventional banking environments and how they can be addressed. The study adopted case study research design and targeted account holders in Islamic windows in the two conventional banks in Nairobi.

The study used a sample of 160 respondents. Quantitative data was collected using a structured questionnaire with both open-ended and closed-ended questions. In addition; an interview guide was employed to collect qualitative data whereby it was analyzed using content analysis. From the analysis of the findings it was concluded that Islamic banking possesses unique features that differentiate it with conventional banking. In addition, interest is viewed as being ‘haram’ in Islam meaning and not permitted while profits and more so profit sharing is viewed as being ‘halal’ meaning it is permitted in the Islamic religion and also it was concluded that there is general lack of proper understanding of the Shariah supervisory and advisory board and its roles despite its critical importance to the banks with regard to Islamic banking. Hence it was recommended that the banks should institute awareness creation programmes so as to educate their customers on the unique features of Islamic banking, the government, the banks’ management and other stakeholders should make deliberate efforts to introduce strict checks and balances on the operation of the Islamic windows, management of the banks should appreciate and recognize the important role of Shariah supervisory and advisory board and educate the bank’s members about the role of the board to allow them to constructively engage with the board on any matters affecting Islamic banking, and the management of the banks should develop a clear policy addressing the issues of interest and profits/loss sharing which is consistent with the provisions of the Shariah law.

Key Words: Chase Bank, Chase-Iman, National Bank, Al-Amanah, Islamic banking, conventional banks, Compatibility.

CHAPTER ONE: INTRODUCTION

1.1 Background of the Study

Banking can be defined as a business activity of accepting and safeguarding money owned by other individuals and entities, and then lending out this money in order to earn profit (Sole, 2007).

It is well known that banking plays a silent, yet crucial part in our day-to-day lives. A financial intermediary can be defined as an entity that acts as the middleman between two parties in a financial transaction. While a commercial bank is a typical financial intermediary, this category can also include other financial institutions such as investment banks, insurance companies, broker-dealers, mutual funds and pension funds. Financial intermediaries offer a number of benefits to the average consumer including safety, liquidity and economies of scale. Banks therefore perform financial intermediation by pooling savings and channeling them into investments through maturity and risk transformations, thereby keeping the economy of a country growing.

Banking business has done wonders for the economies of the world. The simple method of accepting money deposited by clients and then lending the same money to borrowers encourages the continuous flow of money into productive use and investments. In the absence of the banking business, savings would sit idle in our homes, entrepreneurs would not be in a position to access the money, ordinary people dreaming of a new car, a house or other assets would not be able to purchase these assets through borrowing and repaying money.

Generally in the world today, two main categories of banks exist. These are Conventional Banks and Islamic Banks.

The term “Conventional Banking” refers to a banking system that is based on interest. This category of banks is governed by rules and regulations that are man-made and designed to ensure maximization of profits (AbdRahman, 2007). Conventional banks

are at all times encouraging the provision of loans with interest rates that are fixed to their customers.

On the other hand, “Islamic Banking” refers to banking that is entirely based on Islamic law (Shariah) principles and regulated by the Islamic economic system (AbdRahman, 2007). The services and products offered by these banks are considered to be Shariah compliant in that they fulfill the requirements of the Shariah.

In the world today Islamic banks are either in the form of a full-fledged Shariah compliant financial institution or in the form of Shariah compliant windows within a conventional bank. An Islamic window is a banking facility within a conventional bank through which customers can conduct banking and extra banking financial transactions which are Shariah compliant through an equally Shariah compliant process (Sole, 2007).

In Kenya, Islamic banking, whether in a fully-fledged bank or a window, must fulfill the requirements of two sets of law; i.e. the law of the land and the Islamic law (Shariah). It is for this reason that these windows require the services of both conventional banking experts as well as Shariah experts to ensure compliance to the banking laws in the country as well as to the Shariah.

Currently, a significant number of conventional banks in Kenya have opened Islamic banking windows. This is partly because of the recent developments in banking trends and more importantly the growing need by Muslims to have banking services that conforms to their faith.

Like every other aspect of a Muslim’s life, religion provides the philosophical basis of Islamic banking (Mudzaffar Abu Bakar, 2010) to this extent religion influences Islamic banking in two significant ways:

- a) Islam aims at building a socio-economic order based on justice and considers economic activity as a means to an end and not an end in itself.

- b) Islam enjoins people to harness natural resources, which are considered a trust from God for carrying out rightful activities; but abhors exploitation and man-made inequalities of income and wealth.

Islamic banking is a banking activity that is in tandem with Islamic law (Shariah) principles as prescribed in the primary sources of Islam namely; The Quran, The Sunnah (i.e. the sayings, deeds and approvals of the Prophet Mohammed and Ijm'a (i.e. consensus of Muslim scholars).

Given that Islam is a complete way of life, and therefore addresses all aspects of human life, it follows that it should provide guidance and principle rules of a comprehensive economic system, such as property dealing, financial transactions, and scope of permissible investments. The primary objective of Shariah is to ensure the wellbeing (maslaha) of the human society and individuals therein. It is for this reason that it explains in details ethical concepts governing the utilization of money as well as capital, the relationship between risk and profit, and the social responsibilities of financial institutions (Errico et.al, 1998).

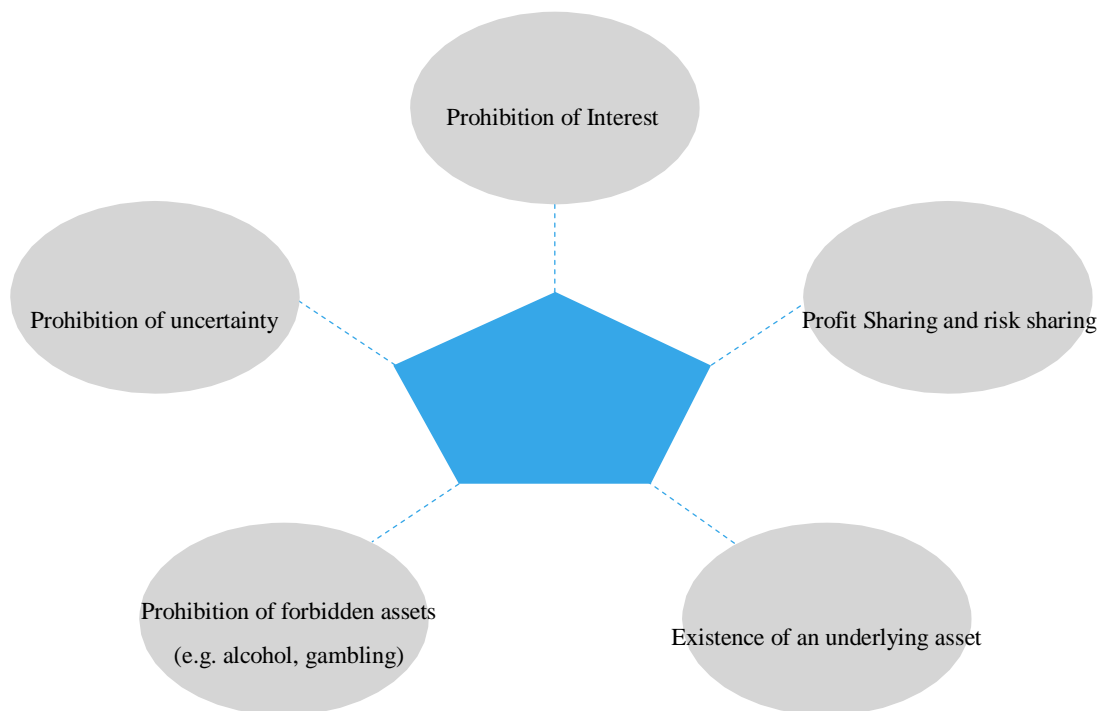
There are five key principles that govern Islamic Banking;

- i) **Prohibition of interest (Riba):** Interest is money received from a loaning activity whereas profit is a return from a trading activity. Interest is prohibited as it hinders individuals from participating in real economic ventures. This is due to the fact that when an individual in possession of money is permitted to earn extra money on interest basis either on the spot or deferred, it becomes easy for him to earn without exerting any efforts to participate and endure the difficulties of real economic ventures.
- ii) **Prohibition of uncertainty (gharar) in contractual terms and conditions:** This is because uncertainty which is common in conventional banking adversely affects transactions as parties are not certain of the outcomes and this is likely to lead to disputes. Uncertainty (gharar) is an important issue discussed in Islamic jurisprudence as well as in modern law. According to

the Shariah, avoiding uncertainty is imperative in the field of Islamic banking.

- iii) **Prohibition of investment or financing of prohibited products and services** such as alcohol, gambling, pork and pornography.
- iv) **Evidence of there being an underlying asset:** Islamic finance is asset based finance. This requires that all transactions of financial nature must be supported by tangible assets unlike in conventional banks where transactions need not to be asset based. In CB money is seen as a commodity or an asset whereas in IB money is seen as a medium of exchange.
- v) **Profit and loss sharing arrangement:** This is between the involved parties, i.e. the lender and the borrower; as opposed to conventional banking where one party (lender) expects profit without having to worry about the risk of incurring any loss whatsoever.

Figure 1 Key Principles of Islamic Banking



In order to ensure that these principles are adhered to, Islamic banks whether fully fledged or windows rely on experts on Shariah and Islamic finance to guide them in their operations.

The main types of organizational structures or delivery models for Islamic banking are:

- i) **Fully-fledged Islamic banks:** This refers to an Islamic banking institution that operates as a standalone entity. Full-fledged Islamic banks are from the onset established for the sole purpose of exclusively offering Islamic banking products and services. Currently in Kenya there are only two such banks, namely: Gulf African Bank and First Community Bank.
- ii) **Islamic subsidiary:** This refers to a conventional banking institution operating a separate subsidiary so that the distribution and operational infrastructure is completely separate from the conventional bank.
- iii) **Islamic window:** This term is used to describe a section within a conventional banking organization that provides Islamic products and services. There are Shariah restrictions around co-mingling of funds and reporting. Hence funds, accounts and reporting must be strictly maintained separately. In essence the Islamic window operates as a separate entity, though the infrastructure, processes and operations may be shared. In order to ascertain that products and services of an Islamic window within a conventional bank are compliant to Shariah, certain checks have to be put in place. These include having an independent Shariah advisory board whose terms of reference include approval of products, supervision of implementation, review of transactions and carrying out periodic Shariah audit. Compliance has to be ensured at all stages.

1.2 Problem Statement

Islamic windows are relatively new phenomena in the Kenya. In the recent past various conventional banks in Kenya have introduced Shariah compliant windows in

their institutions to cater for the needs of their customers. The rapid growth of these windows is dictated by two main factors;

- i. The growing need by customers to have banking services and products that do not conflict with their faith.
- ii. Customers, both Muslims and non-Muslims are gradually appreciating that Islamic banking ensures fairness and justice due to its ethical risk-sharing approach offered, in particular in the wake of the recent global financial crisis.

Islamic banking is based essentially on the principle that interest is strictly forbidden in Islam, whereas, interest is the main source of income in conventional banking. On one hand the banks charge interest on borrowers at a high rate while they pay the depositors at a low rate which is an issue for Muslims who adhere to their faith even in banking issues.

Another issue of concern for Islamic banking is the type of investments that these institutions engage in. For Islamic banking, the investment projects must be carefully selected such that only lawful ventures according to Islam are selected. For example investment in prohibited items such as alcoholic products would not be allowed. This is usually on the basis of the fundamental teaching of Islam which declares that all income from prohibited (haram) sources is also prohibited (Aldohni, 2011), different from how conventional banks operate.

Mohamed (2007) noted that, like any new phenomena, there are many questions that need to be answered pertaining to Islamic windows. Considering that these windows operate within a conventional bank, and the fact that the regulatory system and the environment is not Islamic, it is logical to question the compatibility of these institutions that are based on two parallel systems. Is it practically possible to harmonize their operations so that there is no conflict between the two systems? Against this background, this study therefore sought to examine the compatibility of these two banking systems and address the misconceptions that exist about Islamic banking windows.

1.3 Research questions

The study attempted to answer the following questions pertaining to Islamic banking;

- (i) What is Islamic banking?
- (ii) What is Shariah compliance in Islamic finance?
- (iii) What is the philosophical basis of Islamic finance?
- (iv) What are the main factors that have contributed to the rapid growth of Islamic windows in the banking sector?

1.4 Objectives of the Study

1.4.1 General Objective

The main objective of this study was to show the distinction between conventional and Islamic banking for the purpose of determining whether the two financial systems are compatible and operate in harmony despite having different regulations that guide their daily operations.

1.4.2 Specific Objectives

The specific objectives of this study were:

- i) To bring out salient features of Islamic Banking.
- ii) To distinguish between Profit and Interest as defined by Islamic finance
- iii) To analyze the role of the Shariah advisory and supervisory board
- iv) To identify challenges facing the Islamic Windows within conventional banking environments and how they can be addressed.

1.5 Justification of the Study

Islamic finance, despite its name, is not a religious product. It is however a growing series of financial products developed to meet the requirements of a specific group of people. Conventional finance includes elements such as interest (Riba) and risk (Gharar) which run contrary to the Muslim faith. The continued development of

Islamic finance has arisen to allow Muslims to invest savings and raise finance in a way that does not compromise their religious beliefs. The sector is offering customers an alternative to the conventional banking. Among other things it seeks to eliminate interest while it calls for the sharing of profits and losses from lawful ventures. Both parties (lenders and borrowers) share the risk and returns. They undertake respective liabilities for the entitlement of profit and the deciding factor is the nature of the transaction (Aldohni, 2011).

There are a number of misconceptions surrounding Islamic Banking, the most common being that there is no difference between making profit and interest and that the Islamic windows are just a disguise and leakages are bound to happen as there is no clear segregation of funds within the bank. It is clear therefore that there is need for more information on this financial system in order to address the existing misconceptions and the reality about them is understood. This study is primarily intended to achieve this by at least narrowing the information gap.

It is the hope of the researcher that this study would be a source of some valuable information through providing answers to some of the commonly asked questions on Islamic banking and especially the windows that operate within conventional banks.

1.6 Scope and limitations of the Study

The study was conducted at two Commercial Banks in Nairobi City which have Islamic windows. These are Chase Bank which has Chase-Iman and National Bank which has Al-Amanah. It mainly targeted account holders, Shariah auditors and Shariah advisory board members. Specifically, the study highlighted the features of Islamic Banking, distinguished between profit and loss in shariah, and showed how Islamic windows operate in the parallel environment of conventional banks and identify as well as addressed the challenges facing this sector in Kenya using data collected for the study.

CHAPTER TWO: LITERATURE REVIEW AND THEORETICAL FRAMEWORK

2.0 Introduction

This section reviews existing literature on the compatibility of Islamic windows with the conventional banks. Specifically, it focuses on prohibition of Interest, sharing of profit and loss, underlying assets, sharing of risks, prohibition of uncertainty, segregation of funds, shariah advisory and supervisory board, managerial commitment, auditing and accounting and Islamic banking products. Similarly, it describes the theoretical framework and its relevance to the study.

2.1 Empirical Review

2.1.1 Prohibition of interest (Riba)

The word *riba* is derived from the Arabic verb *raba* which means to increase, grow or rise above (Shihata, 2001). Although *riba* generally refers to usury, some Muslim scholars have given it a much wider scope to cover any increase in wealth and/or income that results from the lending of money or the exchange of fungible/same goods (Shihata, 2001).

It is specifically stated in an early revelation in the Quran that “*God hath permitted trade and forbidden usury*” (The Quran, 274). This restriction is anchored on the principle that the earning of an unjustifiable profit at the expense of another is an exploitative act. Furthermore, the concept of wealth accumulation in Islam reveals that it is *haram* [forbidden] in Islam to accumulate wealth that is not a product of work. Thus wealth that is generated from the payment of interest qualifies as *haram* and is expressly prohibited in the Quran (Quran 4:161). Islamic faith calls for its followers to exert effort to make money and does not encourage the accumulation of *Riba* as it is money not earned through hard work.

Prohibition of *Riba*, is one of the most significant principles in Islamic finance and thus is the key to successful implementation of any commercial transactions in

Islamic banking. When one ignores this principle and engages in it, it further leads to hindering the real interests of humanity, since the interests cannot be protected without real industry, construction and trading activities. Money in itself has no intrinsic (fundamental) value and therefore people are forbidden from profiting by lending it, without accepting a level of risk. To earn money from money is prohibited. Wealth, like money can only be generated through legitimate trade and investment.

Islamic banking is a system of financial intermediation that shuns any receipt or payment of interest as far as its transactions are concerned and carries out its operations according to the Islamic principles of transactions whereby profit and loss sharing (PLS) is a key characteristic, making sure there is equity and justice in economic activities. This is why Islamic banks are frequently referred to as PLS-banks as their banking transactions are interest free.

The payment and taking of interest that occurs in a conventional banking system is explicitly prohibited by the Holy Qur'an and the Sunnah (traditions of the prophet), which therefore implies that investors must be compensated by other means. Technically, riba refers to the extra amount above the principal of a loan according to the time for loaning and the amount of the loan. Thus by prohibiting riba, Islamic banking seeks to establish a society based on fairness and justice.

A loan in conventional banks provides the lender with a pre-determined fixed return irrespective of the outcome of the borrower's venture. It is much fairer to have a sharing of the profits and losses. Fairness, in this context has two dimensions: the supplier of capital possesses a right to reward, but this reward should be commensurate with the risk and effort involved and thus be governed by the return on the individual project for which funds are supplied. Hence, what is forbidden is a predetermined return. The sharing of profit is legitimate and the practice provides the foundation for Islamic banking. It is important to note that, there is a big difference between interest and profit. Below are some of the distinctions between the two;

Table 1 Difference between Interest and Profit

Interest(Riba)	Profit
Premium paid to the lender by the borrower together with the principal amount based on the amount borrowed and period of the loan	Difference between the income and cost of production.
It is certain	It is uncertain
It is prefixed i.e. there is no un-certainty on the parties	It is post-determined, therefore the amount is unknown until the business activity is done
It cannot be negative; it can be very low or zero	It can be negative, zero or positive.
Interest increase money supply in the market hence causing inflation	There is no opportunity of increasing money supply

Interest-based financial system is a major hurdle in achieving distributive justice. It creates un-repayable debt; making a class of people richer and leaving others poorer and oppressed. Excessive debt and its servicing are the striking features of the interest based mechanism: yesterday's debt can be repaid by taking out more debt today. It is not only stifling economic growth but also crippling efforts made by the World Bank, IMF and other donors to reduce poverty in poor countries. It also distorts the payments systems, on account of which the concern for just and fair incomes and earnings is accorded the least consideration. No one cares who is going to pay the debt: which future generations and from where? This kind of behavior, i.e avoiding the payment of currently owed debt- is not acceptable under any divine religion (Mosad, 1990).

Below are verses from the Holy books which include the Torah (Jews), Bible – Old Testament (Christians) and Qur'an (Muslims) respectively as evidence for the prohibition of interest.

“If thou lend money to any of my people that is poor by thee, thou shall not be to him as usurer, neither shall thou lay upon him usury”(Exodus 22:25)

“Do well, and lend, hoping for nothing again; and your reward shall be great, and ye shall be children of Highest” (Luke6: 35)

“Allah has permitted trade and has forbidden interest” (Qur’an 2:275)

The economic problems that are being faced by developing countries have largely emanated from their excessive debt accumulation. The cost incurred in the form of interest has to be paid by successive governments through increasing rates, taxes and other charges. Besides the poor and developing countries, even the developed countries have become accustomed to the bane of debt.

On account of the continued and repeated current account deficits of the United States, it has been transformed from a significant international investor in the 1970s to the world’s largest debtor country. As of today, only US nationals are immune from the devastation of debt and that is by dint of the US dollar being the major reserve currency, despite the fact that it has become a zero-saving nation with unparalleled individual, institutional and national debt. In 2000, while the US deficit was \$668 billion, or 5.7% of GDP, its net external liabilities were estimated at over \$2.7 trillion (23% of US GDP, or 7.5% of world GDP). In 2005 it jumped to \$805 billion and is likely to hit 12% of GDP by the end of the decade. American national debt has passed \$9-trillion(Mohamed, 2007).On the other hand, according to Ernst & Young's (E&Y) World Islamic Banking Competitiveness Report (2013), global Islamic banking assets are expected to cross the \$1.8 trillion mark in 2013 up from \$1.3 trillion in 2011, with the top 20 Islamic banks registering a continuous growth of 16per cent in the last three years.

2.1.2 Sharing of Profit and loss

Profit Loss Sharing (PLS) dominates the theoretical literature on Islamic finance. Broadly, PLS is a contractual arrangement between two or more transacting parties, which allows them to pool their resources to invest in a project to share in profit and loss. Most Islamic economists contend that PLS based on two major modes of financing, namely *Mudaraba* and *Musharaka*, is desirable in an Islamic context wherein reward sharing is related to risk-sharing between transacting parties (Humayun&Presely, 2000).

The underlying principle states that the lender ought to share both in the losses and profits arising out of the business for which the money was given out. It encourages individuals to invest their money thus becoming partners in order to share both the risks and profits in an enterprise instead of being mere creditors. Islamic finance is based on the belief that the giver and the user of capital should participate equally in the sharing of the risk of the enterprise, whether they are service companies, industries, or basic trade deals. Interpreted into banking phrases, the borrower, the bank and the depositor should all participate in the sharing of rewards and the risks of financing business enterprises. This is contrary to interest-based conventional banking system, whereby all the risks are on the client who must pay back the principle loan as well as the agreed interest, irrespective of the failure or success of his enterprise.

The central idea is that under the Islamic financing arrangement the financier is only entitled to returns if risk is involved. If a return is expected there must be a risk. If there is no relationship between the risk and return, then this financial arrangement is not permitted Islamic ally.

Therefore under PLS arrangement, there is a greater discipline into financial system by motivating banks to evaluate carefully the risks and effectively monitor the use of monies loaned by the borrowers. The objective here is to encourage investments and thereby offer a stimulus to the economy and motivate entrepreneurs to maximize their efforts in order to succeed.

In summary therefore, the concept of profit-and-loss sharing in an enterprise, as a basis of financial transactions is a progressive one as it distinguishes good performance from the bad and the mediocre. This concept therefore encourages better resource management. The Islamic sukuk system is similar to bonds of capitalist system, but in *sukuk*, money is invested concrete projects and profit share is distributed to clients instead of interest earned.

2.1.3 Existence of an underlying asset.

Islamic finance requires that all banking business based on sale or lease must have an underlying asset. As the Islamic bank either acts as a seller of a service or usufruct (the right to use) vendor, or leaser, the asset or service is of paramount importance. The absence of an underlying asset will render the contract void from the beginning. This is in contrast to conventional banking where the asset's importance lies only in terms of collateral security in the sense that the asset purchased using the loan money may be charged or assigned as security in favor of the bank. The asset was never part of the loan transaction (Haq et.al, (1987).

The prohibition of debt and the encouragement of risk sharing suggest a financial system where there is a direct link between the real and the financial sector. As a result, the system introduces a “materiality” aspect that links financing directly with the underlying asset so that the financing activity is clearly and closely identified with the real-sector activity. There is a strong link between performance of the asset and the return on capital to finance it. This discourages diversion of borrowed funds to unproductive ventures. In this context therefore, the bank buys the asset and sells it to the client but the ownership remains with the bank until the borrower completes the payments without any interest being added on the cost.

2.1.4 Sharing of risk

As discussed above, one of the most critical principles of Islamic banking is that it encourages sharing of risk between the funds providers (investors) and funds users (entrepreneurs). In complete contrast, under commercial banking, the investor is guaranteed of a preset rate of interest and the entrepreneur bears all the risk (Yaserri,

2002). Whether the project thrives and earns a profit or goes down and experiences a loss, the owner of the capital is still rewarded with a preset return. In Islamic banking, this method of unjust distribution of risk is not allowed. At national level, replacing risk-free with risk-related capital could also be considered. Inflow of foreign resources in the form of direct and portfolio investments should be encouraged as opposed to borrowed funds which are mainly squandered and little is done from them.

2.1.5 Prohibition of uncertainty (Gharar)

El-Gamal (2000) defines Gharar as "... the sale of probable items whose existence or characteristics are not certain, due to the risky nature which makes the trade similar to gambling". However, Al-Saati (2003) counters that there is no agreement among Muslim jurists about the degree of uncertainty in commercial transactions to be considered as Gharar.

All transactions made by Islamic financial institutions (IFIs) must be free from elements of uncertainty (Gharar) and gambling (Maisir). This is because Gharar might lead to disputes caused by an unjustified term in the contract arising from misrepresentation or fraud. Gambling is seen as an action that always enriches one party at the expense of the other - a zero sum game.

Gharar is not allowed in Islamic finance. Therefore any transaction carried out ought to be free from such elements. Contracting parties entering into contract should have proper information of the counter-values intended to be exchanged due to their transactions. In this context the term counter-values is used in case of something being deferred, either the price paid or the commodity delivered. Deferral of payment is an acceptable form of debt under Islam, in contrast to predetermined debt in conventional finance. Further, parties cannot preset an assured profit. The concept behind the forbidding of uncertainty is the wish to safeguard the poor from exploitation. Thus, hedging in the form of futures and options considered to be very risky are deemed to be forbidden, because the forward exchange rates are set by interest rate differentials.

2.1.6 Productivity emphasis as compared to credit-worthiness

Under the usual form of banking, almost all that is important to the lender is that its money and interest thereon are remitted on time. Thus, in offering loans, the most important consideration is the borrower's credit-worthiness. Under PLS banking, the lender will get a return only if the venture succeeds thus producing a profit. It is therefore reasoned, an Islamic bank will be much concerned with the wellness of the venture as well as the managerial competence and business acumen of the entrepreneur.

2.1.7 Segregation of Funds

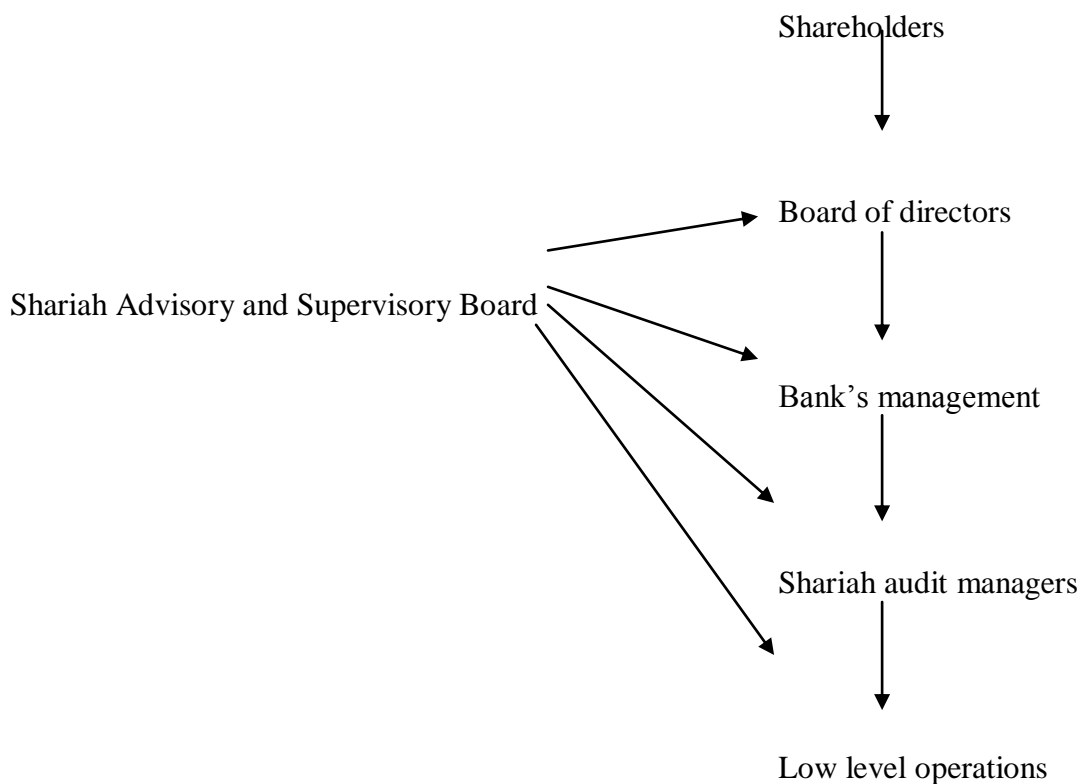
An important principle behind Islamic finance is the desire to maintain the moral purity of all transactions (Yaquby, 1991). The funds intended for Shariah-compatible investments should therefore not be mixed with those of non-Islamic investments. The rationale behind this principle necessitates the taking of all precautions to ensure that Islamic funds do not become mixed with other funds that may be involved with *riba*, *gharar*, or forbidden (*haram*) activities. Therefore, in order to ensure compliance with Islamic principles, conventional banks wishing to offer Islamic products must guarantee and publicize that the funds devoted to conventional activities will not be mixed (commingled) with those destined for Islamic activities. In operational terms, this requires that banks establish different capital funds, accounts, and reporting systems for each type of activity. In this sense then, when a conventional lender decides to open an Islamic window, to a large degree, it is in fact establishing a separate entity from the rest of the bank.

2.1.8 Shariah Advisory and Supervisory Board

According to Islamic finance, there must be a Shariah advisory and supervisory board for any institutional Islamic investment body, which consists of trustworthy and honorable scholars highly qualified and competent enough to give religious rulings (*fatawa*) relating to financial transactions. Apart from that, they should be considerably experienced and knowledgeable in modern transactions and dealings (WafikGrais 2006). The Articles of Association, statutes or prospectuses should

provide for the existence of a Shariah board, whose decisions should be guiding the management of financial institutions. It should also be autonomous and free to provide opinions on any proposed transactions and contracts; as a result there will be great confidence on the public and investors on the bank's operations. If the Shariah board discovers any malpractices by the bank's managers they have powers to inform the public on the same thereby having an adverse effect on the Islamic window's operations. Below is diagram that shows where SASB fits in the governance structure of an IW.

Figure 2 SASB and governance structure of an IW



From the diagram, it is evident that SASB is an independent organ within the governance structure of the bank which does not interfere with the day to day management of the bank but whose advice must be considered by the various levels in the bank in as far as Islamic banking is concerned.

Policy makers in the bank must always be sensitive when making policies to ensure that they do not adversely affect the operations of the IW.

2.1.9 Managerial Commitment

The management of a financial institution carrying out Islamic ventures, should be entirely convinced of the idea and completely committed as well as dedicated to it. Further it should also be anxious to execute and adhere with the teachings that govern it irrespective of how stringent and strict the contracts and rulings are. It is advisable that the executive senior management, which is involved with the decision making to be compliant and later train the other members of the team which is involved in administrative duties. The overall manager should himself act as a motivator setting the pace for all in this respect (Sole, 2007).

2.1.10 Auditing and Accounting Standards

The fast expansion of the Islamic banking industry that began in the 1970s was not initially accompanied by the creation of a set of internationally recognized accounting rules (Joan, 2007). Consequently, Islamic institutions around the globe had to resort to developing their own accounting solutions for their new products, rendering comparisons across institutions difficult, and sometimes even giving the impression of lack of transparency.

The need for a body of accounting standards purposely designed to reflect the specificities of Islamic products became even more pressing as new and more complex instruments were being marketed. To close this widening gap, the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) was created in 1990. One of the main goals of this organization is to design and disseminate auditing and accounting standards that can be applied internationally by all Islamic financial institutions.

The AAOIFI also plays a crucial role in pursuing the harmonization of Shariah-based rulings across jurisdictions. The fact that supervisory bodies in different countries tend to rely on their own Shariah experts, may result in contradictory statements regarding the acceptability of a given instrument. Thus, financial products that are permissible in some countries, could be deemed as non-Islamic in others. Such disparity could discourage the cross-border use of Islamic products and constrain the

growth potential of this industry. Furthermore, the pursuit of international consistency would not only ease the task of supervising internationally active institutions, but it would also ultimately favor the regulated institutions, as Islamic transactions would become better understood, and thus more attractive for Muslim and non-Muslim investors across the world. It would additionally foster the integration of Islamic institutions into the international financial community.

Today, a number of central banks and government authorities in individual nations have made known these standards and require other financial organizations to adhere to them. This is the reason why any party willing to incorporate or start an Islamic financial institution is needed to comply to these standards so as to avert ambiguity, misunderstanding, and also seek sound business activities and clarity.

2.1.11 Islamic banking products

The success of Islamic banking, like any other system rests on innovation and designing of products that meet customer needs. Certainly, recent innovations in Islamic financing pass this particular test. The difference between conventional banks and Islamic banks in terms of their products is more apparent in the area of risks and risk management. Below are some products offered by Islamic windows.

a. Mortgage facility (Diminishing Musharaka)

Under conventional mortgage, in order to purchase a property, the customer borrows money and repays it with an additional amount over a given period of time. The additional amount is the amount of interest which is against the Shariah rulings of Islam. Under Islamic mortgage finance facility, the bank shares with the customer in purchasing his desired property. Accordingly, the customer and the bank become the joint owners of the property in proportion to their share in purchasing the property. In order to own and use the entire property, the customer gradually purchases the bank's share in the property over a given period of time and also pays the rent for using the bank's unpaid share of the property (Holmes et al, 2007; Haralambos & Holborn 1991). Over a given period of time, the customer manages to purchase the entire share of the bank in the property. Ultimately, the customer becomes the sole owner. It has

been referred to as “Diminishing Musharaka” as the banks share keeps on diminishing while that of the borrower’s (client’s) keeps on increasing.

Further, in case of Islamic mortgage finance, the rent will be charged after the lessee has taken delivery of the property and it is in workable/usable condition. Rent cannot be charged from the day the price was paid to acquire the property/asset. If the supplier has delayed the delivery after receiving the full price, the lessee should not be liable for the rent of the period of delay. In the case of conventional mortgage finance, normally the lease rentals starts from the date the bank made payment for purchasing the property/asset.

b. Ijara (lease agreement)

A lease is an agreement that guarantees the lessee (the renter) use of an asset and guarantees the lessor (property owner) regular payments from the lessee for a specified number of months or years (www.investopedia.com).

Under the conventional leasing system, the lessee pays the specified rentals and a fixed interest rate over a specified period of time. The conventional bank takes the risk of interest rate changes.

Under the Shariah principle, Ijara (lease) is based on profit sharing system. The rent collected from the lessee is calculated on the bases of profitability of the asset rented not on the bases of the bank’s capital involved (Mosad 1990).

c. Murabaha (Purchase and resale)

Instead of lending out money, the lender (bank) buys the desired product (for which the money is lent out) from a third party and later resells it at a preset higher price to a specific capital user. Payment of this high price over installments, the capital user has successfully gotten credit without paying any interest at all.

d. Wakalah (Agency contract)

This is an agency contract, which usually includes in its terms a fee for the expertise of the agent. A customer who owns a deposit account appoints the bank as an agent to do a particular transaction and pay a fee for the expertise.

2.1.12 Challenges faced by Islamic windows in conventional banks

Islamic windows have several challenges facing their operations in Kenya. These are as follows (Yaquby 1991):

- i) Shortage of experts in IB – The supply of trained or experienced workforce has slowed down the development of Islamic windows in the conventional banks.
- ii) PLS is unsuitable in short-term financing or nonprofit sector – Most companies need capital to finance their short-term liquidity. However it is difficult to determine the return from such a transaction as it is also in the case of a non-profit sector, for example determining the return from building a school or constructing a new highway (Shihata, 2001).
- iii) Lack of information on the products of Islamic windows – The public is not aware of the available products offered by Islamic windows.
- iv) Lack of developed Islamic capital and money markets – these markets are non-existing in Kenya. In case of liquidity shortages an Islamic window cannot call upon the central bank to provide funds because they issue financing under the interest based system.
- v) Nature of clients in the country – Most of the bank clients are small scale business owners. It is difficult to finance these customers under the PLS system.
- vi) PLS deposits: Deposit mobilization is a big challenge under Islamic banking, this is mainly because the depositor's are not provided with any form of protection for their funds and have to take whatever the bank gives them as profits and if a bank suffers loss it is directly transferred to the customers (Sole, 2007).

The challenge mentioned above notwithstanding, the researcher has identified some economic and social factors that were not highlighted by previous studies. These are as follows:

2.1.13 Economic contributions

The Muslim community has lagged behind in terms of employment opportunities in Kenya. The emergence of Islamic windows has offered a new opportunity for the community to prosper. Similarly, many could not participate in economic activities for fear of interest (riba) (UstHjZaharuddinHjAbdRahman, 2007).

Graduates of Islamic Shariah stand a greater chance of being employed in the Islamic windows within conventional banks not only because of their expertise but by the virtue of their faith and commitment to the sector.

Asset possession and increased business ventures will increase owing to the principle of presence of an underlying asset for any loan issued by the Islamic windows. Consequently increased economic growth in the country through tax collection by the government (Yaquby, 1991).

2.1.14 Social Contributions

Unemployment has been a big problem among the youth in Kenya. As a result there has been increase in the rate of crime, ranging from theft to terrorist attacks. Development of Islamic windows offering new job opportunities will reduce poverty levels which is a recipe for crime in the country.

2.2 Theoretical Framework

2.2.1 Conflict Theory

Conflict theory emphasizes the role of coercion and power in producing social order. This perspective is derived from the works of Karl Marx, who saw society as fragmented into groups that compete for social and economic resources. Social order is maintained by domination, with power in the hands of those with the greatest

political, economic, and social resources. When consensus exists, it is attributable to people being united around common interests, often in opposition to other groups. Marx theorized that the work of producing consensus was done in the "superstructure" of society--which is composed of social institutions, political structures, and culture--and what it produced consensus for was the "base," the economic relations of production.

According to conflict theory, inequality exists because those in control of a disproportionate share of society's resources actively defend their advantages. The masses are not bound to society by their shared values, but by coercion at the hands of those in power. This perspective emphasizes social control, not consensus and conformity. Groups and individuals advance their own interests, struggling over control of societal resources. Those with the most resources exercise power over others with inequality and power struggles result.

In society governments, organizations and an elite class of people make decisions that affect the lives of a large mass of other people. A significant amount of research shows these decisions are often made to serve their own economic interests and values of which includes the means of production and property ownership (Holmes et al, 2007; Haralambos & Holborn, 1990; McGregor, 2000)

The central areas of focus from this perspective are; (1) the classes that existing society, (2) inequalities of society and (3) how society functions to serve the powerful class and disadvantage the others, thereby causing conflict (Holmes et al, 2007; Haralambos & Holborn 1991). Examples of these conflicts include wars, revolutions, strikes and communism (McGregor, 2000).

In relation to this study, the conflict theory is relevant because it shows that within one environment, two institutions that operate with different principles are likely to have conflict in their working environments. Because different rules govern different aspects of society, not everyone involved will be in agreement with the other because they think their system is better than the other. Conventional banks and Islamic banking systems nowadays operate within the same environment but because they

have different rules to abide by, conflict may arise and customers may even face personal conflict as to which systems to bank with. This study therefore intends to analyze how these two works together to ensure their customers benefit from their services in harmony with other services.

2.2.2 Social Exchange Theory

This theory arose out of the philosophical traditions of utilitarianism, behaviorism, and neoclassical economics. Early social exchange theory applications in family science arose out of the work of sociologists (Homans, 1961; Thibaut & Kelley, 1959) who focused on the rational assessment of self-interest in human social relationships. At its most basic, social exchange theory may be viewed as providing an economic metaphor to social relationships. The theory's fundamental principle is that humans in social situations choose behaviors that maximize their likelihood of meeting self interest in those situations.

In taking such a view of human social interactions, social exchange theory includes a number of key assumptions. First, the theory operates on the assumption that individuals are generally rational and engage in calculations of costs and benefits in social exchanges. In this respect, they exist as both rational actors and reactors in social exchanges. This assumption reflects the perspective that social exchange theory largely attends to issues of decision making.

Secondly, the social exchange theory builds on the assumption that those engaged in interactions are rationally seeking to maximize the profits or benefits to be gained from those situations, especially in terms of meeting basic individual needs. In this respect, social exchange theory assumes social exchanges between two or among more individuals are efforts by participants to fulfill basic needs.

Third, exchange processes that produce payoffs or rewards for individuals lead to patterning of social interactions. These patterns of social interaction not only serve individuals' needs but also constrain individuals in how they may ultimately seek to meet those needs. Individuals may seek relationships and interactions that promote

their needs but are also the recipients of behaviors from others that are motivated by their desires to meet their own needs.

Lastly, the social exchange theory argues that individuals participate in a relationship out of a sense of mutual benefit rather than coercion. Thus, coercion should be minimized at all times in mutual relationships in order to meet desired goals for all parties involved in this mutually beneficial relationship.

From a social exchange perspective, then, human behavior may be viewed as motivated by desire to seek rewards and avoid potential costs in social situations. Humans are viewed as rationally choosing more beneficial social behaviors as a result of rational reviews of all available information. Because all behavior is costly in that it requires an expenditure of energy on the part of the actor, only those behaviors that are rewarded or that produce the least cost tend to be repeated. Thus, social exchanges take on an air of consistency in that patterns of rewards often remain stable in social relationships.

In relation to this study, many individuals still do not seem to understand how Islamic banking operates and how it benefits their clients especially since one of the principles of prohibition of *riba* exists. However, there are those who understand how this system benefits them as individuals and this study seeks to elaborate on its importance.

2.3 Conceptual Framework

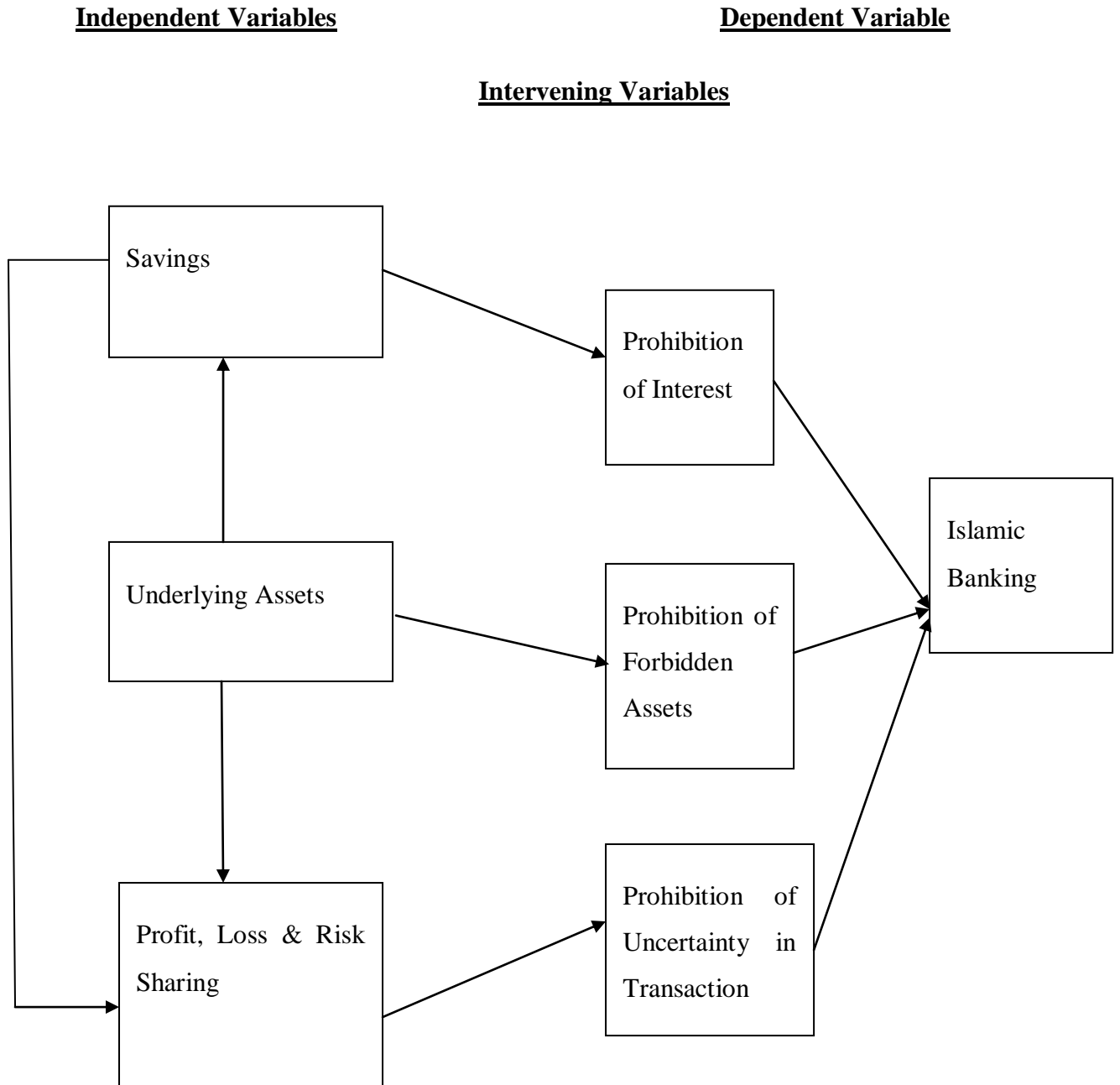
The conceptual framework shows the distinction between conventional and Islamic banking for the purpose of determining whether the two financial systems are compatible and operate in harmony despite having different regulations that guide their daily operations. These features constitute the different variables to the study. The independent variables comprise of; Savings, Underlying Assets, & Profit, Loss & Risk Sharing.

The framework also highlights intervening variables which includes Prohibition of Interest, Prohibition of Forbidden Assets & Prohibition of Uncertainty in Transaction.

The interrelationship between these variables explains the distinction between conventional and Islamic banking for the purpose of determining whether the two financial systems are compatible and operate in harmony despite having different regulations that guide their daily operations.

Below is the model of the conceptual framework

Figure 3: Conceptual framework



CHAPTER THREE: RESEARCH METHODOLOGY

3.0 Introduction

This section describes the methodology that was used in this study. The research site, study population, study design and unit of analysis, research tools, sampling procedures, data analysis and the ethical issues relating to the study.

3.1 Site Description

The first Islamic bank (First Community Bank) was established in Kenya in the year 2007 according to Shariah law by private Muslim Investors in Kuwait, Kenya and Tanzania (Haress, 2013). The bank received a Kenyan commercial banking license the same year, and started operations in June 2008. The FCB is the first Kenya-based bank to operate according to the laws of Sharia. Since 2007, it now operates and maintains a successful series of 18 branches across Kenya. As expected, many conventional banks noted the success of this Islamic banking system and decided to incorporate Islamic banking in their conventional banking systems and this would be achieved through the establishment of Islamic windows.

Although there are many banks in Kenya which began using Islamic Windows, this study focused on two banks; National Bank of Kenya (Kenyatta Avenue Branch) and Chase Bank (Waiyaki way). National bank of Kenya established its Islamic window in 2009 on this branch while chase bank established theirs in 2008.

These two banks were chosen for this study because they were both incorporated in Kenya and one is a private bank and the other is a parastatal. The researcher have zeroed down to these two banks in order to establish whether these two sectors (public and private) have policies that have led to the growth or hindrance of the Islamic banking operations.

3.2 Research design

Research design is the entire strategy that is chosen to integrate the various elements of the study in a manner that is logical and coherent, thereby, ensuring that there will be effective addressing of the research problem (David, 2001).

The study adopted case study as the research design; which enabled the researcher study two entities namely National bank and Chase bank in depth. It endeavored to describe and explain the bank's operations in order to get insights into the larger cases. The design has mainly been chosen because it enabled the researcher to study the two entities in depth hence do an informed comparison.

3.3 Unit of Analysis and observation

In this study the unit of analysis was the Islamic windows in conventional banks in Nairobi, namely; National bank (Al-amana), Kenyatta Avenue branch, and Chase bank (Chase Iman), Waiyaki way Branch. The researcher analyzed their operations in order to establish their compatibility with conventional banks.

Unit of observation is the units from which information is collected from (Adler Emily, 2008). In this study, the units of observation are the account holders in Islamic windows, shariah audit managers and shariah board members.

3.4 Target population

The target population for this study constituted of account holders in Islamic windows in the two conventional banks in Nairobi, namely; National bank and Chase Bank.

Burns and Grove (2003) and Mugenda and Mugenda (2003) describe population as all the elements that meet the criteria for inclusion in a study. Population is therefore the entire group of individuals, events or objects having a common observable characteristic. The target population for this study constituted of account holders and the Sharia Auditors and Sharia advisory and supervisory board members of National bank and Chase Bank in Nairobi central business district (CBD).

Table 2: Target Population

Category	Population
Account holders	1600
Sharia auditors and Sharia advisory and supervisory board members	4
Total	1604

3.5 Sample and Sampling Techniques

A sample is a smaller group or sub-group obtained from the accessible population (Mugenda and Mugenda, 1999). This subgroup is carefully selected so as to be representative of the whole population with the relevant characteristics. Each member or case in the sample is referred to as subject, respondent or interviewees. Sampling is a procedure, process or technique of choosing a sub-group from a population to participate in the study (Ogula, 2005). It is the process of selecting a number of individuals for a study in such a way that the individuals selected represent the large group from which they were selected. The study applied random sampling procedures to obtain the respondents for questionnaires. It was used so that any person selected for sampling is removed from the population for all subsequent selections. The sample frame of the study included a representative sample of account holders and the Sharia Auditors and Sharia advisory and supervisory board members of National bank and Chase Bank in Nairobi central business district (CBD). At least 10% of the total population is representative (Borg and Gall, 2003). Thus, 10% of the accessible population is enough for the sample size.

Table 3: Sample Size

Category	Percentage	Population
Account holders	$10/100*1600$	160
Sharia Auditors and Sharia advisory and supervisory board members	$100/100*4$	4
Total		164

3.6 Methods of Data collection

3.6.1. Collection of Quantitative Data

Quantitative data was collected using a structured questionnaire with both open-ended and closed-ended questionnaire appendix ii. The researcher sought permission from the bank's management to interview clients in the banking hall.

3.6.2 Collection of Qualitative Data

Qualitative data was collected using Key Informant interview guide appendix iii which was administered to the Key Informants purposively selected for this study. 4 Key Informants, 2 from the National Bank and 2 from Chase Bank selected as follows: 1Shariah audit manager and 1Shariah board member from the National Bank and 1Shariah audit manager and 1 Shariah board member from Chase Bank. All interviews were conducted by research assistants and recorded, and verbatim responses to each question were translated. Thematic analysis was performed.

3.7 Ethical considerations

With regard to this study, an introductory letter from the Department of Sociology, University of Nairobi was first used to introduce the researcher and purpose of the study.

The researcher also complied with the principle of voluntary participation and of informed consent to ensure that the respondents knowingly and willingly agreed to participate in the research. Those who wished to withdraw from the study at any particular time were also at liberty to do so. The anonymity and confidentiality of the respondents was guaranteed by using serial numbers on the questionnaires instead of their names to conceal their identity for their safety, dignity and privacy.

3.8 Data analysis

Quantitative data collected using the survey method was analyzed using descriptive statistics. This was done using pie charts, graphs and percentage distributions and

means as needed and tabulated using the statistical package for social sciences (SPSS) software.

Qualitative data, collected through the key informant interviews was analyzed for content that was used to support other findings from the study. The information was grouped into broad themes, organized, summarized and presented in direct quotations of relevant verbatim responses and selected comments. Narrative analysis was used.

CHAPTER FOUR: DATA ANALYSIS, PRESENTATION AND DISCUSSION

4.1 Introduction

This chapter presents analysis and findings of the study as set out in the research methodology. The results were presented on an investigation into the compatibility of Islamic banking with conventional banks. The study sought answers to the following research objectives: To bring out salient features of Islamic Banking; To distinguish between Profit and Interest as defined by Islamic finance; To demonstrate how Islamic windows operate within a conventional bank and the role of the Shariah advisory and supervisory board and to identify challenges facing the Islamic Windows within conventional banking environments and how they can be addressed. The chapter covers the demographic information and the findings based on the objectives. The findings were then presented in tables, graphs and charts as appropriate with explanations being given in prose thereafter.

4.1.1 Response Rate

The study targeted 160 respondents out of which 136 respondents participated in the study contributing to a response rate of 85%. The study also targeted 4 key informants all of whom participated in the study contributing to a response rate of 100% for the key informants. This response rate was sufficient and representative and conforms to Mugenda and Mugenda (1999) stipulation that a response rate of 50% is adequate for analysis and reporting; a rate of 60% is good and a response rate of 70% and over is excellent. This commendable response rate was due to extra efforts that were made via personal calls and visits to remind the respondents to fill-in and return the questionnaires.

Table 4: Response Rate

Account holders		
	Frequency	Percent
Responded	136	85
Never responded	24	15
Total	160	100

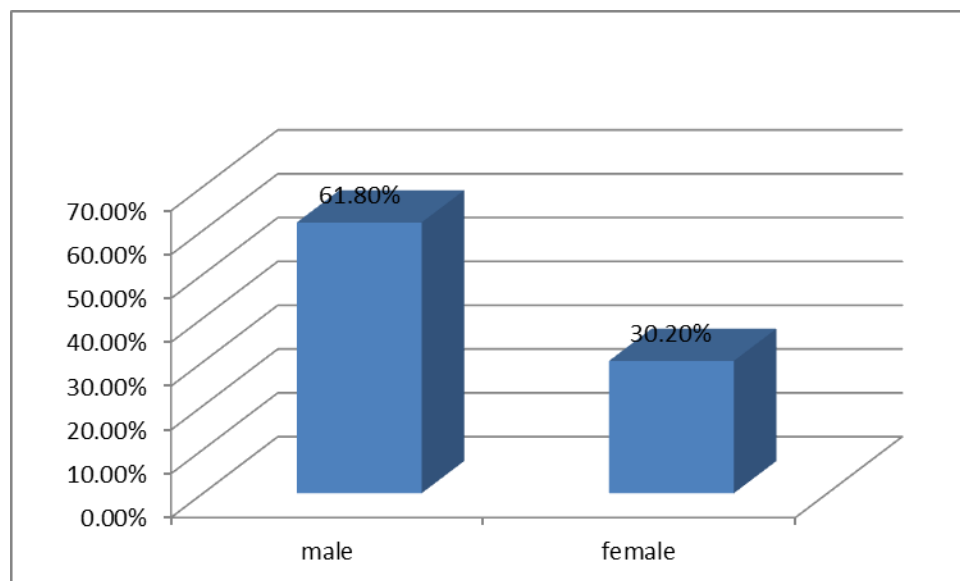
4.2 Demographic Information

The study sought to ascertain the general information about the respondents involved in the study with regards to their gender, age, highest level of education, religion and position in the bank. The demographic information points at the respondents' suitability in answering on the compatibility of Islamic banking with conventional banks.

4.2.1 Gender of the respondents

The study sought to establish the gender distribution of the respondents and the findings are as shown in figure 4.4 below.

Figure 4: Gender of the respondents

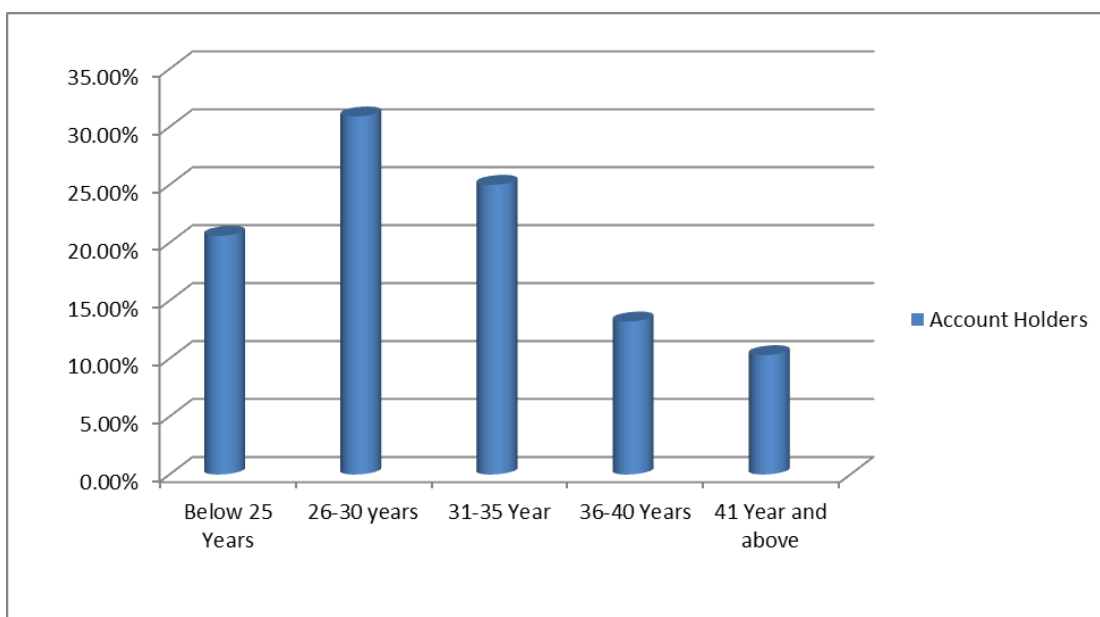


According to the findings, majority (61.8%) of the account holders were male while 38.2% of the account holders were female. From the findings, all (100%) of the key informants were male. This implies that majority of the account holders in the two commercial banks (National bank and Chase bank) were predominantly male than they were predominantly female. This indicates that majority of the study respondents were male.

4.2.2 Age distribution of the respondents

The study sought to establish the age distribution of the respondents and the findings are as shown in figure 4.5 below.

Figure 5: Age distribution of the respondents



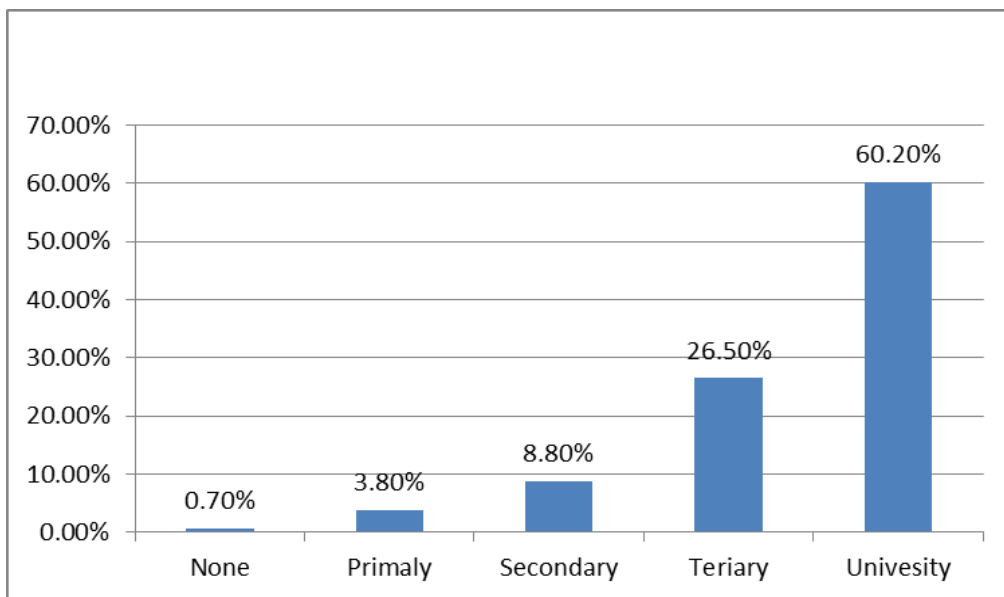
According to the findings, most (30.9%) of the account holders were aged between 26-30 years, 25% were aged between 31-35 years, 20.6% were aged below 25 years, 13.2% were aged between 36-40 years while 10.3% of the account holders were aged 41 years and above. From the study findings, majority (75%) of the key informants

were aged between 41 years and above while 25% of the key informants were aged between 36-40 years. This implies that majority of the account holders in the two banks were young people and hence the youth formed an important clientele of the two commercial banks under study. The further depicts that majority of the study respondents were old enough to understand issues on the compatibility of Islamic banking with conventional banks.

4.2.3 Highest education level of the respondents

The study sought to establish the highest level of education of the respondents and the findings are as shown in figure 4.6 below.

Figure 6: Highest education level of the respondents



According to the findings, majority (60.2%) of the account holders indicated that they had achieved University education, 26.5% indicated that they had achieved Tertiary level education, 8.8% indicated that they had achieved O-level education, 3.8% had Primary level education while 0.7% of the account holders indicated that they had no education background. From the study findings, all (100%) of the key informants indicated that they had achieved University education. This implies that majority of

the account holders and key informants had sound academic background and as such understood well issues on the compatibility of Islamic banking with conventional banks.

4.2.4 Religion of the respondents

The study sought to establish the religion distribution of the respondents and the findings are as shown in table 4.4 below.

Table 5: Religion of the respondents

Account holders		
	Frequency	Percent
Muslim	66	48.5
Christian	40	29.4
African traditional	12	8.8
Hindu	8	5.9
None	10	7.4
Total	136	100

According to the findings, most (48.5%) of the account holders indicated that they were Muslims, 29.4% indicated that they were Christians, 8.8% indicated that they were African traditionalists, 7.4% indicated that they had no religion while 5.9% of the account holders indicated that they belonged to the Hindu religion. From the study findings, all (100%) of the key informants indicated that they were Muslims. This implies that majority of the account holders and key informants pronounced the Islamic religion and as such had a good understanding on issues on the compatibility of Islamic banking with conventional banks.

4.2.5 Key informant's position in the bank

The study sought to establish the position held by the key informants in the banks. From the study findings, two of the key informants indicated that there Shariah board

advisors in the banks, two other key informants indicated that they were managers in Shariah Audit Section. This implies that all the key informants held key positions in their banks that would help them understand issues on the compatibility of Islamic banking with conventional banks.

4.3 Features of Islamic Banking

The first objective of the study was to identify the salient features of Islamic banking and the findings are as discussed in the subsequent sub-sections.

4.3.1 Features of Islamic banking respondents knew

The study sought to find out the features of Islamic banking that the respondents were aware of. According to the respondents, the account holders indicated that the features of Islamic banking that they were aware of included; no interests charged on loans, no investments in Haram ventures, good partnership between the depositor and the bank and variety of products and services that are Shariah compliant. The key informants also indicated that some of the salient features of Islamic banking included; faith based banking, banking compliant to Shariah law, interest free banking, and viewing money as a medium of trade and not an asset as well as abstinence from unjust and unethical trading activities. This implies that Islamic banking has unique features that contrast it with conventional banking.

Table 6: Features of Islamic banking respondents knew

Features	Frequency	Percentage
No interests charged on loans	46	34
No investments in Haram ventures	34	25
Good partnership between the depositor and the bank	29	21
Variety of products and services that are Shariah compliant	27	20
Total	136	100

4.3.2 Advantages experienced in the Islamic window

The study sought to establish the advantages that the respondents experienced in the Islamic window. According to the interviewees, the account holders indicated that the advantages that they experienced in the Islamic window were; banking that is compatible with their religion, availability of Islamic banking products, interest free loans, better customer relations, shorter queues, high levels of transparency to the account holders, just investments and profit/loss sharing attributes. This depicts that Islamic banking offers wide range of benefits to the bank's customers by creating a friendly and transparent dealings hence inspiring confidence among the bank's customers.

Table 7: Advantages experienced in the Islamic window

Advantages	Frequency	Percentage
Banking that is compatible with their religion	43	32
Availability of Islamic banking products	26	19
Interest free loans	24	17
Better customer relations	14	10
Shorter queues	5	4
High levels of transparency to the account holders	13	10
Just investments and profit/loss sharing attributes	11	8
Total	136	100

4.3.3 Challenges experienced in the Islamic window

The study sought to establish the challenges that the respondents experienced in the Islamic window. According to the respondents, the account holders and the key informants indicated that the challenges experienced in the Islamic window included; the bank customers not being aware how their savings were being invested and whether they were being invested in a Shariah compliant manner, unavailability of

Islamic banking in remote areas, linking of Islamic activities to terrorism, the customers' poor understanding of the banking regulations and operations, shortage of competent Shariah experts in the industry and inadequate loan facilities. This depicts that there are major challenges impeding the full adoption of Islamic banking which in turn limits its growth and contribution to the development of the Kenyan banking industry.

Table 8: Challenges experienced in the Islamic window

Challenges	Frequency	Percentage
Lack of awareness on investment in Shariah compliant products	31	23
Unavailability of Islamic banking in remote areas	23	17
Linking of Islamic activities to terrorism	20	15
Customers' poor understanding of the banking regulations and operations	24	17
Shortage of competent Shariah experts in the industry and inadequate loan facilities	38	28
Total	136	100

4.3.4 Opinion on availability of solutions to the challenges

The study sought to determine whether the respondents thought that there were solutions to the challenges experienced in the Islamic window.

Table 9: Opinion on availability of solutions to the challenges

	Frequency	Percentage
Yes	92	67.6%
No	44	32.4%

Total	136	100
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According to the findings,, majority of the account holders indicated that they believed that there were solutions to the various challenges experienced in the Islamic window. They cited solutions such as expansion of Shariah compliant products and services, enhanced training of banking staff on Islamic banking, the banks should ensure that they invest in Shariah compliant ventures/undertakings and public awareness that Islamic religion does not support terrorism. This depicts that with concerted efforts from all the stakeholders, the challenges inflicting Islamic banking can be addressed enabling its full adoption to the benefit of both the banks and their clients.

4.3.5 Accounts with conventional banks

The study sought to find out whether the respondents had an account in a conventional bank.

Table 10: Accounts with conventional banks

	Frequency	Percentage
Yes	64	47%
No	36	53%
Total	136	100

From the findings, majority of the respondents indicated that they had an account in a conventional bank. The respondents also indicated that there were many differences between Islamic windows and conventional banks such as high interest rates in the conventional banks compared to the Islamic window, conventional banks use money as an asset rather than as a medium of exchange, Islamic windows are based on the Shariah law and there are more queues in the conventional banks compared to the Islamic windows. This implies that there are fundamental differences between Islamic banking and conventional banking. However, majority of the respondents held accounts in both the Islamic windows and in the conventional banks.

4.4 Profit and interest as per Islamic banking

The second objective of the study sought to distinguish between Profit and Interest as defined by Islamic finance and the findings are as discussed in the subsequent subsections.

4.4.1 Understanding of interest in Islamic banking

The study sought to find out whether the respondents understood the meaning of interest in the context of Islamic banking.

Table 11: Understanding of interest in Islamic banking

	Frequency	Percentage
Yes	44	32.4%
No	92	67.6%
Total	136	100

According to the interviewees, majority of the account holders indicated that they did not well understand the meaning of interest in the context of Islamic banking though

they understood it to mean that no charge would be placed on the loans taken from the banks. This implies that majority of the bank’s customers lacked proper understanding of interest as applied in the context of Islamic banking and as such there is need for awareness creation on this important aspect of Islamic banking.

4.4.2 Understanding of profit in Islamic banking

The study sought to find out whether the respondents understood the meaning of profit in the context of Islamic banking.

Table 12: Understanding of profit in Islamic banking

	Frequency	Percentage
Yes	49	36%
No	87	64%
Total	136	100

According to the findings, majority of the account holders indicated that they did not well understand the meaning of profit in the context of Islamic banking though they understood it to mean that there would be sharing of benefits accruing from the bank’s operating activities. This implies that majority of the bank’s customers had a poor understanding of profit as applied in the context of Islamic banking and as such there is need for awareness creation on this important aspect of Islamic banking.

4.4.3 Islamic view of interest and profit

The study sought to establish how the Islamic religion viewed interest and profit made by the banks. The respondents argued that, majority of the account holders indicated that interest is viewed as being ‘haram’ in Islam meaning it is not permitted while

profits and more so profit sharing is viewed as being ‘halal’ meaning it is permitted in the Islamic religion. This implies that the Islamic religion is very clear on the prohibition of charging interest on funds advanced to the bank members and on the sharing of the bank’s returns among the bank’s members. This is an integral feature/element of Islamic banking which advocates for offering of banking services in line with the Shariah law.

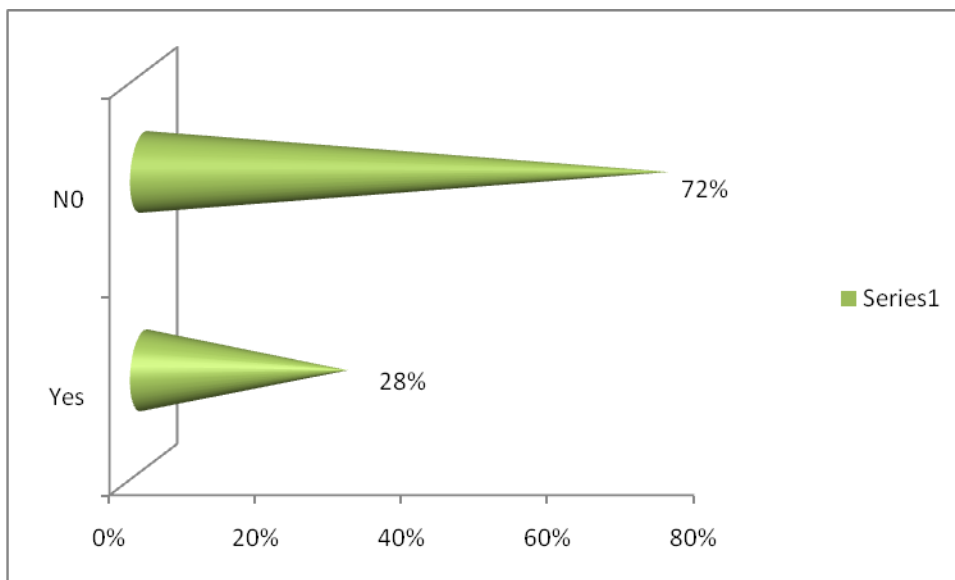
4.5 Role of Shariah supervisory and advisory board

The third objective of the study sought to determine the role of the Shariah advisory and supervisory board in the Islamic windows as applied in the conventional banks and the findings are as discussed in the subsequent sub-sections.

4.5.1 Knowledge of Shariah supervisory and advisory board

The study sought to establish whether the respondents knew about the existence of the Shariah supervisory and advisory board.

Figure 7: Knowledge of Shariah supervisory and advisory board



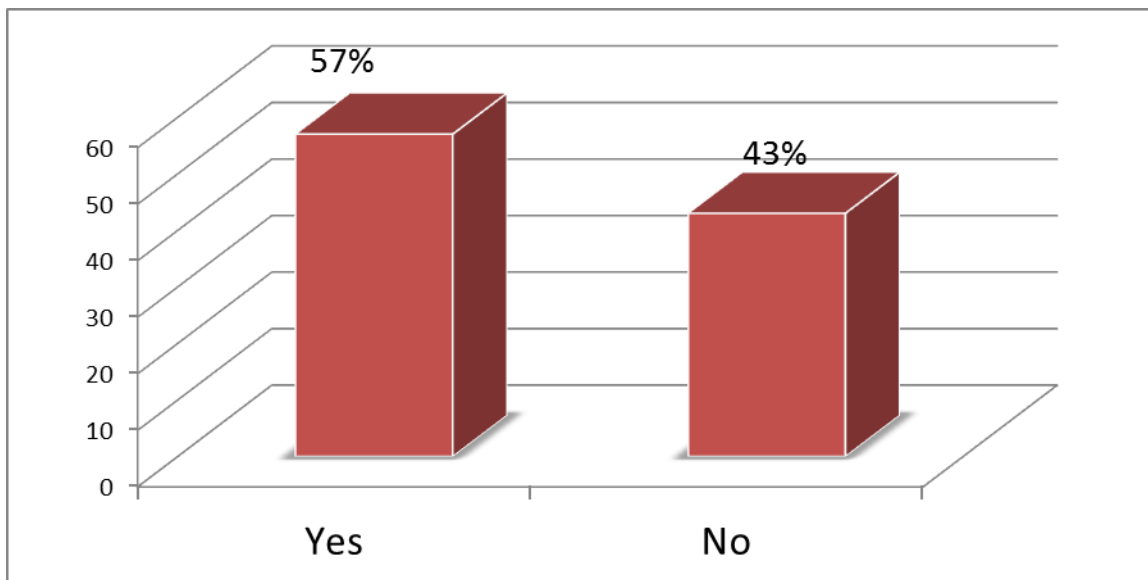
According to the findings, 72% of the account holders indicated that they were not aware of the existence of the Shariah supervisory and advisory board. However those aware (28%) of the board indicated that the board advises the bank on Shariah

compliant products. This implies that majority of the bank's customers lacked proper understanding of the Shariah supervisory and advisory board and its roles and thus there is need for awareness creation to the bank members on the responsibilities of the Shariah supervisory and advisory board.

4.5.2 Consultance with the Shariah supervisory and advisory board

The study sought to establish whether the respondents had ever consulted the Shariah supervisory and advisory board as they engaged with the banks on various banking services.

Figure 8: Consultancy with the Shariah supervisory and advisory board



According to the findings, 57% of the account holders indicated that they had never consulted the Shariah supervisory and advisory board as they engaged with the banks on various banking related matters. This implies that majority of the bank's customers did not engage with the Shariah supervisory and advisory board while conducting their banking business with the banks. Thus, there lacked constant contact between the Shariah supervisory and advisory board and the bank's customers.

4.5.3 Rating of banking services in Islamic banking

The study sought out to find out how the respondents would rate the banking services offered to them in Islamic banking. From the interviewees, majority of the account holders indicated that they would rate the banking services they received from banks in the context of Islamic banking as good. This implies that majority of the respondents were satisfied with the kinds of services offered by the banks under Islamic banking.

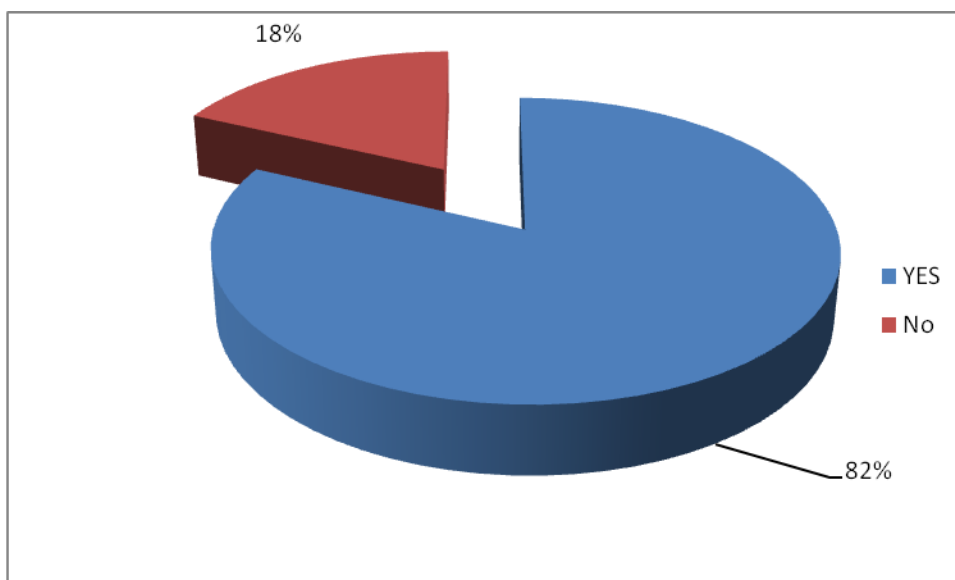
4.6 Challenges facing the Islamic Windows within conventional banking environments

The last objective of the study sought to identify the challenges facing the Islamic windows within the conventional banking environments and how they can be addressed and the findings are as discussed in the subsequent sub-sections.

4.6.1 Existence of challenges

The study sought to establish whether the respondents thought that there were challenges facing the Islamic windows.

Figure 9: Existence of challenges

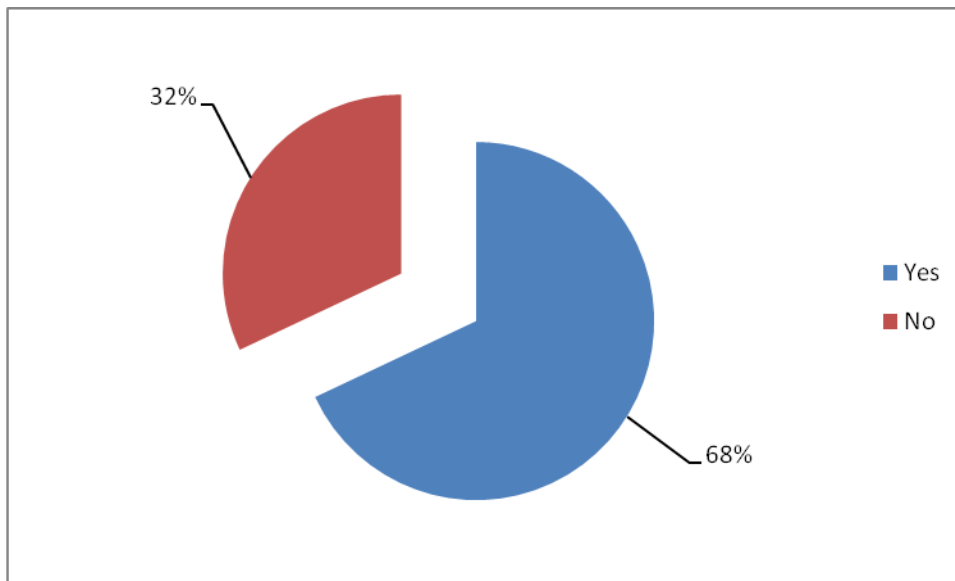


According to the findings, majority of the account holders responded on the affirmative that they thought that there were challenges affecting the Islamic windows. Majority of the account holders noted the following as some of the challenges affecting the Islamic windows; competition from other conventional bank's products and services, perception problems towards the Islamic windows, insufficient awareness about the Islamic windows, expansion challenges, lack of adequate staff who are competent in Islamic finance and banks claiming that they are Islamic banking but in actual sense they are conventional. From the study findings, the key informants also acknowledged the existence of challenges affecting the Islamic windows and identified some of the challenges as including; difficulty in segregation of funds, limited Shariah compliance investment opportunities in Kenya, lack of a proper Islamic legal framework in banking, inadequate regulatory framework, existence of only a few competent Shariah scholars competent to serve as Shariah board members, Islamic banking being a new phenomenon in Kenya and customers having little or no knowledge on Islamic banking. This implies that majority of the bank's customers and the key informants acknowledged that there were challenges that affected the Islamic windows which need to be addressed if Islamic banking is to take root within the Kenyan conventional banking environment.

4.6.2 Compatibility of Islamic windows with conventional banks

The study sought to find out whether the respondents thought that Islamic windows were compatible with the conventional banks.

Figure 10: Compatibility of Islamic windows with conventional banks



According to the findings, majority of the account holders held the view that Islamic windows are incompatible with the conventional banks owing to the differences on the principles and values governing the conventional banks as compared to those governing Islamic banking. This implies that a lot needs to be done if Islamic windows are to be compatible with the conventional banks more so ensuring strict adherence to the provisions of the Shariah law with regard to banking operations.

4.6.3 Ways of addressing the challenges

The study sought to establish ways or measures that can be taken so as to address the challenges that faced the Islamic windows in the conventional banks' environment. From the study findings, the account holders and the key informants identified various measures that can be helpful in addressing the underlying challenges to the Islamic windows. The measures they identified included; need to introduce strict checks and balances on operation of the Islamic windows, training of bank's staff on Islamic banking, advocating for amendment of the banking laws, diversification of the products offered under the Islamic windows, establishing an umbrella Shariah board at the higher levels of the banking hierarchy such as at the Central Bank, educating the bank customers on the ideals and operation of Islamic banking and expanding the

network so as to reach out on all Islamic clients all over the country. This depicts that there are solutions to the challenges affecting the Islamic windows in the conventional bank's operating environment.

4.6.4 Operation of the Islamic windows within the conventional banks

The study inquired on how the Islamic windows operated within the conventional banks. According to the findings, the key informants indicated that the Islamic banking window must adhere to some certain minimum requirements that render it compliant to operate under the conventional banking set-up. It also entails the engagement of an independent board of Shariah scholars to ascertain compliance to Shariah principles. It also entails the separation of funds between the window and the conventional wings. This implies that there is need for clear structures and operational guidelines to govern the operation of the Islamic windows within the conventional banks.

4.6.5 Roles of the key informants in the Islamic windows

The study sought to establish the roles of the key informants in the Islamic window in the conventional banks. According to the findings, the key informants indicated that their roles in the Islamic window included; advising the banks on the products and services that are Shariah compliant, to supervise the mechanisms of the window on how to ensure compliance to the Shariah, to audit the activities of the Islamic window to ascertain that its income has been realized as per the Shariah law and to train the staff on Shariah issues. This implies that the key informants played important roles to support the Islamic windows in the conventional banks.

4.7 Discussion of Findings

The study revealed that Islamic banking has unique features such as no interests charged on loans, no investments in Haram ventures, good partnership between the depositor and the bank, viewing money as a medium of trade and not an asset, abstinence from unjust and unethical trading activities and variety of products and services that are Shariah compliant. The findings were similar to those of Errico et.al

(1998) who noted that The primary objective of Shariah is to ensure the wellbeing (maslaha) of the human society and individuals therein. It is for this reason that it explains in details ethical concepts governing the utilization of money as well as capital, the relationship between risk and profit, and the social responsibilities of financial institutions.

The study also found out that there were various advantages that the respondents experienced in the Islamic window including; banking that is compatible with their religion, availability of Islamic banking products, interest free loans, better customer relations, shorter queues, high levels of transparency to the account holders, just investments and profit/loss sharing attributes. The findings agree with Aldohni (2011) who noted that the continued development of Islamic finance has arisen to allow Muslims to invest savings and raise finance in a way that does not compromise their religious beliefs and among other things it seeks to eliminate interest while it calls for the sharing of profits and losses from lawful ventures.

The study found out that there are various challenges that the respondents experienced in the Islamic window which included; the bank customers not being aware how their savings were being invested and whether they were being invested in a Shariah compliant manner, unavailability of Islamic banking in remote areas, linking of Islamic activities to terrorism, the customers' poor understanding of the banking regulations and operations, shortage of competent Shariah experts in the industry and inadequate loan facilities. The findings agree with Mohamed (2007) who noted that like any new phenomena, there are many questions that need to be answered pertaining to Islamic windows. Considering that these windows operate within a conventional bank, and the fact that the regulatory system and the environment is not Islamic, it is logical to question the compatibility of these institutions that are based on two parallel systems.

The findings also revealed majority of the account holders indicated that interest is viewed as being 'haram' in Islam meaning it is not permitted while profits and more so profit sharing is viewed as being 'halal' meaning it is permitted in the Islamic

religion. The findings agree with Humayun & Presely (2000) who noted that prohibition of *Riba* is one of the most significant principles in Islamic finance and thus is the key to successful implementation of any commercial transactions in Islamic banking. He further notes that Profit Loss Sharing (PLS) dominates the theoretical literature on Islamic finance and is desirable in an Islamic context wherein reward sharing is related to risk-sharing between transacting parties.

The study also found out that majority of the account holders held the view that Islamic windows are incompatible with the conventional banks owing to the differences on the principles and values governing the conventional banks as compared to those governing Islamic banking. The findings are in line with Aldohni (2011) who noted that Islamic banking is based essentially on the principle that interest is strictly forbidden in Islam, whereas, interest is the main source of income in conventional banking. Another issue of concern for Islamic banking is the type of investments that these institutions engage in. For Islamic banking, the investment projects must be carefully selected such that only lawful ventures according to Islam are selected. For example investment in prohibited items such as alcoholic products would not be allowed. This is usually on the basis of the fundamental teaching of Islam which declares that all income from prohibited (haram) sources is also prohibited different from how conventional banks operate.

The study found out that there are various measures that can be helpful in addressing the underlying challenges to the Islamic windows. The measures identified by the respondents included; need to introduce strict checks and balances on operation of the Islamic windows, training of bank's staff on Islamic banking, advocating for amendment of the banking laws, diversification of the products offered under the Islamic windows, establishing an umbrella Shariah board at the higher levels of the banking hierarchy such as at the Central Bank, educating the bank customers on the ideals and operation of Islamic banking and expanding the network so as to reach out on all Islamic clients all over the country. The study findings are collaborated by Sole (2007) who observed that The management of a financial institution carrying out Islamic ventures, should be entirely convinced of the idea and completely committed

as well as dedicated to it. It is advisable that the executive senior management, which is involved with the decision making to be compliant and later train the other members of the team which is involved in administrative duties

The study established that majority of the account holders indicated that they were not aware of the existence of the Shariah supervisory and advisory board and neither had they consulted the Shariah supervisory and advisory board as they engaged with the banks on various banking related matters. The findings are in accordance with WafikGrais (2006) who noted that to Islamic finance, there must to be a Shariah advisory and supervisory board for any institutional Islamic investment body, which consists of trustworthy and honorable scholars highly qualified and competent enough to give religious rulings (fatawa) relating to financial transactions. Apart from that, they should be considerably experienced and knowledgeable in modern transactions and dealings.

CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.0 Introduction

This chapter presents summary of findings, conclusion and recommendations of the study in line with the objective of the study. The study sought to establish the compatibility of Islamic banking with conventional banks.

5.1 Summary

The study established that Islamic banking possesses unique features that differentiate it with conventional banking. The features include; no interests charged on loans, no investments in Haram ventures, good partnership between the depositor and the bank, viewing money as a medium of trade and not an asset, abstinence from unjust and unethical trading activities and variety of products and services that are Shariah compliant. This implies that Islamic banking has unique features that contrast it with conventional banking.

The study found out that there are various advantages that the account holders experienced in the Islamic window including; banking that is compatible with their religion, availability of Islamic banking products, interest free loans, better customer relations, shorter queues, high levels of transparency to the account holders, just investments and profit/loss sharing attributes. This shows that Islamic banking offers wide range of benefits to the bank's customers by creating a friendly and transparent dealings hence inspiring confidence among the bank's customers.

The study also established that there are numerous challenges being experienced in the Islamic window including; the bank customers not being aware how their savings were being invested and whether they were being invested in a Shariah compliant manner, unavailability of Islamic banking in remote areas, linking of Islamic activities to terrorism, the customers' poor understanding of the banking regulations and operations, shortage of competent Shariah experts in the industry and inadequate loan facilities. Thus, there are major challenges impeding the full adoption of Islamic

banking which in turn limits its growth and contribution to the development of the Kenyan banking industry.

From the study findings, it was established that majority of the respondents had an account in a conventional bank. In addition, the respondents also indicated that there were many differences between Islamic windows and conventional banks such as high interest rates in the conventional banks compared to the Islamic window, conventional banks use money as an asset rather than as a medium of exchange, Islamic windows are based on the Shariah law and there are more queues in the conventional banks compared to the Islamic windows. Thus, there are fundamental differences between Islamic banking and conventional banking. However, majority of the respondents held accounts in both the Islamic windows and in the conventional banks.

The study also established that interest is viewed as being ‘haram’ in Islam meaning it is not permitted while profits and more so profit sharing is viewed as being ‘halal’ meaning it is permitted in the Islamic religion. Thus, the Islamic religion is very clear on the prohibition of charging interest on funds advanced to the bank members and on the sharing of the bank’s returns among the bank’s members. This is an integral element of Islamic banking which advocates for offering of banking services in line with the Shariah law.

The study also found out that majority of the account holders indicated that they were not aware of the existence of the Shariah supervisory and advisory board and neither had they consulted the Shariah supervisory and advisory board as they engaged with the banks on various banking related matters. Thus, there is general lack of proper understanding of the Shariah supervisory and advisory board and its roles and thus there is need for awareness creation to the bank members on the responsibilities of the Shariah supervisory and advisory board.

The study also found out that majority of the account holders rated the banking services they received from banks in the context of Islamic banking as good. This

shows that majority of the respondents were satisfied with the kinds of services offered by the banks under Islamic banking.

The study also established that there are various challenges that the respondents experienced in the Islamic window which included; the bank customers not being aware how their savings were being invested and whether they were being invested in a Shariah compliant manner, unavailability of Islamic banking in remote areas, linking of Islamic activities to terrorism, the customers' poor understanding of the banking regulations and operations, shortage of competent Shariah experts in the industry and inadequate loan facilities. This implies that there is general consensus that there are challenges that affect the Islamic windows which need to be addressed if Islamic banking is to take root within the Kenyan conventional banking environment..

The study revealed that there are various measures that can be helpful in addressing the underlying challenges to the Islamic windows. The measures identified by the respondents included; need to introduce strict checks and balances on operation of the Islamic windows, training of bank's staff on Islamic banking, advocating for amendment of the banking laws, diversification of the products offered under the Islamic windows, establishing an umbrella Shariah board at the higher levels of the banking hierarchy such as at the Central Bank, educating the bank customers on the ideals and operation of Islamic banking and expanding the network so as to reach out on all Islamic clients all over the country. This depicts that there are solutions to the challenges affecting the Islamic windows in the conventional bank's operating environment.

The study also found out that the key informants played various roles in the Islamic window including; advising the banks on the products and services that are Shariah compliant, to supervise the mechanisms of the window on how to ensure compliance to the Shariah, to audit the activities of the Islamic window to ascertain that its income has been realized as per the Shariah law and to train the staff on Shariah issues. Thus, the key informants played important roles to support the Islamic windows in the conventional banks.

5.2 Conclusion

The study concludes that Islamic banking possesses unique features that differentiate it with conventional banking. This is because Islamic banking is based on the teachings and principles of the Shariah law that guide the conduct of the Islamic faithfuls. However, these principles and teachings are not applicable to the conventional banks giving rise to the disparities.

The study also concludes that interest is viewed as being 'haram' in Islam meaning it is not permitted while profits and more so profit sharing is viewed as being 'halal' meaning it is permitted in the Islamic religion. Thus, the Islamic religion is very clear on the prohibition of charging interest on funds advanced to the bank members and on the sharing of the bank's returns among the bank's members.

The study also concludes that there is a general lack of proper understanding of the Shariah supervisory and advisory board and its roles despite its critical importance to the banks with regard to Islamic banking. Thus, there is a very low level of engagement between the bank's customers and the Shariah supervisory and advisory board in the normal business transactions between the banks and the customers.

The study further concludes that there are various challenges experienced in the Islamic windows which include; the bank customers not being aware how their savings were being invested and whether they were being invested in a Shariah compliant manner, unavailability of Islamic banking in remote areas, linking of Islamic activities to terrorism, the customers' poor understanding of the banking regulations and operations, shortage of competent Shariah experts in the industry and inadequate loan facilities and that there are various measures that can be helpful in addressing the underlying challenges to the Islamic windows including; need to introduce strict checks and balances on operation of the Islamic windows, training of bank's staff on Islamic banking, advocating for amendment of the banking laws, diversification of the products offered under the Islamic windows, establishing an umbrella Shariah board at the higher levels of the banking hierarchy such as at the Central Bank, educating the bank customers on the ideals and operation of Islamic

banking and expanding the network so as to reach out on all Islamic clients all over the country.

5.3 Recommendations

a) The banks should institute awareness creation programmes so as to educate their customers on the unique features of Islamic banking enabling them to have a better understanding of the nature of products and services being offered.

a) The bank's management should make deliberate efforts to train the bank's staff on Islamic banking.

c) The banks should create awareness to the customers on the role of the Shariah supervisory and advisory board so as to constructively engage them on any matters affecting Islamic banking.

d) The banks should create awareness on the meaning of interest and profit in the context of Islamic banking. In addition, the policy must be availed to the bank members to educate them on this important aspect of Islamic banking.

5.4 Areas of further studies

Since this study focused on an investigation into the compatibility of Islamic banking with conventional banks in the two commercial banks, the study recommends that similar study should be done in other commercial banks in Kenya for comparison purposes and to allow for generalization of findings on the compatibility of Islamic banking with conventional banks.

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APPENDICES

APPENDIX I : CONSENT FORM FOR RESPONDENTS

Serial number of questionnaire

Site number

CONSENT FORM

Hello Sir,

My name is Fatma Farid Abdalla, a student at the University Of Nairobi. I am conducting a study on the compatibility of Islamic banking windows within conventional banking environments. I will now give you information on what the study is about. Afterwards, I will invite you to be a study participant. Once I have shared this information, you can decide whether or not you will participate in the study. Please feel free to stop me as we go through the information and I will take time to explain any queries or concerns you may have.

May we proceed? ___Yes ___No

The overall purpose of the study is to establish whether Islamic banking windows are compatible with the conventional banking environment in which they operate. Islamic finance is an area of great contention especially amongst those who do not share the Islamic faith and do not understand how it operates to serve people and better their lives financially and economically. Islamic banking also faces many challenges and this study intends to highlight some of these challenges as well and recommend how they can be tackled to improve Islamic window operations in future. This study therefore aims to bring out a clear understanding of how Islamic windows operate and how all principles of Islamic finance are upheld during all transactions.

You've been selected randomly and I wish, with your permission, to interview you. Any details related to your privacy will be kept confidential and will not be disclosed to anyone without your knowledge or permission. Your participation in this study is very important and I rely on you to provide me with accurate information that will help us to develop effective strategies on how to improve operations through your Islamic window.

The interview will take approximately 60 minutes but with your cooperation it can take a shorter period.

May I have your permission to proceed with this interview? Yes No

If you do not want to participate, please tell me why:
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Name and signature of the interviewer that a verbal consent was obtained:

Name of interviewer

Signature of the interviewer

____/____/2014

Date (dd/mm/yyyy)

APPENDIX II: QUESTIONNAIRE FOR THE ACCOUNT HOLDERS

Section A: Background Information

1. What is your gender?

- a. Male b. Femal

2. What is your age? (Please circle appropriately)

- a. Below 25 years b.26-30 years c. 31-35years d. 36-40 years e. 41 years and above

3. What is your level of education?

- a. None b. Primary c. Secondary d. Tertiary e. University

4. What is your religion

- a. Muslim b. Christian c. African traditional d. Hindu e. None

Section B: Features of Islamic Banking

1. What feature of Islamic banking do you know?

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2. What advantages have you experienced in the Islamic Window?

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3. What are the challenges that you have experienced in the Islamic window

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4. Do you think there are solutions to these challenges?

- a. Yes b. No

If yes, explain

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5. Do you have an account in a conventional bank?

- a. Yes b. No

If yes, what do you think are the differences between a conventional bank and Islamic windows?

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Section C: Profit and interest as per Islamic banking

1. Do you understand what we mean by interest in Islamic banking?

a. Yes b. No

If yes, explain

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2. Do you understand what we mean by profit in Islamic banking?

a. Yes b. No

If yes, explain

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3. How does Islam view interest and profit?

a) view on interest

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b) view on profit

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Section D: Role of Shariah supervisory and advisory board

1. Do you know about shariah supervisory and advisory board?

a. Yes b. No

If yes, explain

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2. Have you ever consulted the Shariah supervisory and advisory board?

a. Yes b. No

If yes, explain

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3. How do you rate their services to account holders in Islamic banking?

- a. Excellent b. Good c. Fair d. Very poor e. others (please specify).....

Section E: Challenges

1. Do you think there are challenges facing Islamic windows?

- a. Yes b. No

If yes, explain

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2. Do you think Islamic window is compatible with a conventional bank?

- a. Yes b. No

If yes, explain

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3. What can be done to address the challenges to make the two more compatible?

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4. What are your general comments on compatibility of Islamic windows with conventional banks?

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APPENDIX III: THE KEY INFORMANT GUIDE

Section A: Background information

1. What is your gender?

- a. Male b. Female

2. What is your age? (Please circle appropriately)

- a. Below 25 years b. 26-30 years c. 31-35 years d. 36-40 years e. 41 years and above

3. What is your level of education?

- a. None b. Primary c. Secondary d. Tertiary e. University

4. What is your religion?

- a. Muslim b. Christian c. African traditional d. Hindu e. None

5. What is your position in the bank?

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Section B: Islamic windows

1. In your view what are the main features of Islamic banking?

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2. How does the Islamic window operate within a conventional bank?

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3. What are your roles in Islamic window?

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6. In your opinion what are the benefits of having an Islamic window in a conventional bank

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