Society and Business Review

Building Trust in Islamic Finance Products and Services

Journal:	*Society and Business Review*
Manuscript ID	Draft
Manuscript Type:	Research Paper
Keywords:	Business ethics, Business

Building Trust in Islamic Finance Products and Services

Introduction

The remarkable growth of Islamic finance (IF) during the past 40 years has been driven primarily by its distinctive ethical characteristics, innovative features and foundations of faith-based trust. The central moral principles and religious injunctions underpinning Islamic Finance bar *riba* (interest), *gharar* (uncertainty), *qimaar* (gambling) and recommend risk sharing, and equitable economic and ethical conduct. Translation of these aspirations into a range of financial tools, products and services has led to the global total asset base of Islamic Finance increasing to over $1.35 trillion in 2014 (Thomson Reuters, 2015). Islamic Finance is emerging as truly universal phenomena given its geographical reach transcending the traditional markets of the Gulf, Middle East and North Africa, and South East and South Asia. Islamic capital market has spread to almost all regions of the world including European countries such as the United Kingdom, Luxembourg, Ireland and France, Asian markets including Singapore, Hong Kong and Japan, as well as the United States of America (Hesse, Jobst & Solé, 2008). More than belief, it is the demonstration of trust in Islamic finance as a multi-dimensional framework of economic prosperity and finance that defines its success.

Central to IF is the concept of Trust or *Amanah* that reflects its core value and organizing principle. *Amanah* is a legal duty on all Muslims to be trustworthy and to honor commitments (al-Munajjid, 2016). The power and persuasion of *amanah* in Islamic finance lies not only in its legal sanction but also in its spiritual encoding where human relations (*muamulat*) are seen as

The author wishes to thank Professor Siraj Sait of University of East London for his suggestions in preparation of this paper. Thanks also to Abdul-Jalil Ibrahim, MSc student of Islamic Finance at Qatar Faculty of Islamic Studies, HBKU, for his special assistance in preparing the paper.

exercised with regard to divine injunctions. The doctrine of trust in Islamic finance is both practical and transformational.

As Islamic finance continues to grow, the IF industry continues to address the challenges of trust which are generic in the proposal of alternative financial system as well as inherent in its nature as a religious oriented system. The question of trust varies, aiming at its stakeholders that include consumers, investors, regulators, lawyers, academics and *shari'ah* scholars. In its essence, trust is about the performance of Islamic Finance to achieve its promised objectives for all stakeholders with a level playing field. Islamic Finance seeks to restore confidence and trust at various levels, within and between communities through redefining the ethos and parameters of trust itself. At a basic level, it engages with distrust and ambivalence among Muslims scholars and consumers' concerns over some popular forms of IF products but more significantly has reached out to skeptics in non-Muslim constituencies concerned with manifestations and implications of Islamic dogma and values itself. Rudnyckyj (2014) holds the view that the public appeal and credibility of IF is partially dependent on the ability of its proponents to present it as a credible alternative to finance.

The trust deficit needs to be addressed as all of the social relationships would fail and not able to function properly without trust (Patrick, 2002).Thus, the focus of this paper is to explore *amanah* through three dimensions - a regulatory and governance process that ensures that IF products are both shari'ah compliant and meet their financial objectives, a legal framework that protects the material interests of all stakeholders, and more significantly a socio-political bridge that facilitates dialogue, innovation and empowerment both within the Muslim community and as an inter-faith discourse toward shared goals and mutual interests through Islamic finance.

This paper considers the theoretical foundation of trust and analyzes the reasons for gaps between the expectations, which are the fault lines of distrust among the different stakeholders and the perceived impact of the distrust on the industry. It identifies how trust in practice and potentially addresses these gaps. Finally, it explores efforts to bridge these gaps between the different groups of stakeholders with the help of illustrative case studies.

The concept of trust in Islamic Finance

In the conduct of business, trust is perceived as one of the most relevant precursors of stable and successful relationships. Trust is not only of greatest importance for building and maintaining long-term relationships but also acts as an essential outcome. Trust is predicated on the partners' mutual confidence on reliability, integrity and performance. Thus, trust is viewed as an essential element for successful relationships (Rousseau et al, 1998; and Singh and Sirdeshmukh, 2000, Morgan and Hunt (1994) and Moorman et al, 1993). In the Islamic faith, trust assumes the highest moral trait in business dealings. According to Hanafi and Sallam (1997), trust is a moral obligation of every individual in performing their duties in social and economic life. In a similar observation, Ahmad (1997) states that the essence of trust is accountability, while the principle of trust is honesty and keeping one's word in the performance of social activities, as well as in one's political and economic life, and in all human interactions (Choudhury and Hussain, 2005). Therefore, in Islam, the principles of truthfulness and honesty go beyond business strategy, but are seen as essential to faith for the Muslims. Trust is a virtue of moral value and obligatory on every Muslim in the performance of their affairs, which is seen as the cornerstone of the relationship of individuals with God and others (Iqbal and Mirakhor, 2007; Morgan and Hunt, 1994; and Berry, 1995).

The basic philosophy of trust in the Islamic banking system is espoused in trustworthiness, equity, equality, honesty among human beings, and further gives credence to enhancing established moral values of business relationships in Islamic banking (Sauer, 2002). In a similar way, ethics and compliance with *shari'ah* are regarded as the highest building and sustaining pillars in running Islamic banking based on trust (Kayed and Hassan, 2011). As observed in a research from Turkey, although religious belief often motivate customers "high return/profitability" from a cocktail of financial products achieved through effective business strategies are important determinants of customers' satisfaction level (Okumus 2015). Thus, factors such as convenience, cost and benefit, and corporal efficiency are as important as Islamic aspects of finance (Awan and Bukhari 2011). Hoq et al. (2010), by sourcing data from Malaysia showed that customer trust, satisfaction and image were based on performance and image. The study demonstrated that customer loyalty is built through trust in the banks' business. For the IF industry that is still seen as relatively top-down, the questions of trust and customer satisfaction are even more important ingredients in measuring the responsiveness to expectations and demands of their customers (Astrom 2013).

Theoretical Framework

In understanding the significance of trust in Islamic Finance, it is necessary to comprehend its source, premise and context. Several authors such as Rudnyckyj (2009) refer to Islamic finance as a confluence of Islamic and capitalist ethics creating what he terms as 'spiritual economies' in Indonesia. Spiritual economies are more than moral economies and conjure a different set of expectations, modes of behaviour and are located in personal choices but arising out of political and public movements. The denunciation of time value of money and interest are part of shifts (or assertions of historical ideas) in cultural dimensions of money and finance as well as aspirations for alternatives to regular capitalist ways of life. Carruthers and Kim (2011) point out that, generally, global shifts toward capital market integration and liberalisation created greater global interdependence and unleashed financial innovation and deregulation. Islamic Finance was both a conscious quest for authentic and alternate finance at the local level and a globalised linked up effort sharing expertise and innovation. Perforce, the concept of trust emerging from Islamic Finance was both a continuum of stability and productivity but seeking greater levels of reassurance through the nature of its products – for example, participative and asset-based – but also stakeholder responsiveness.

There has been intensified integration of production systems, financial activities, and labor markets across national boundaries in the era of increasing globalization (Appaduraj 1996 and Rudyekyij, 2004). Some advocates have had the long view that alternative financial instruments should be engineered to help Muslims participate in the global economy in a *shari'ah* way (Maurer 2006). This development has affected the IF practices as the bifurcated approaches of *shari'ah* screening and *shari'ah*-based go on. In Muslim countries, there is a limited adherent to the principles of Islamic economic system because of the perception of superiority of secular economics and the unwillingness to detach from imported colonial laws in banking and tax systems (Yousri, 2013).

The nexus between building trust, customer loyalty, image of the business and long-term sustainability of the business is well articulated in Figure 1. (Amin et al, 2011, Ball et al., 2004 and Flavian et al., 2005). The relationship between these variables provides a construct for appreciating the important role of trust in business relationships.

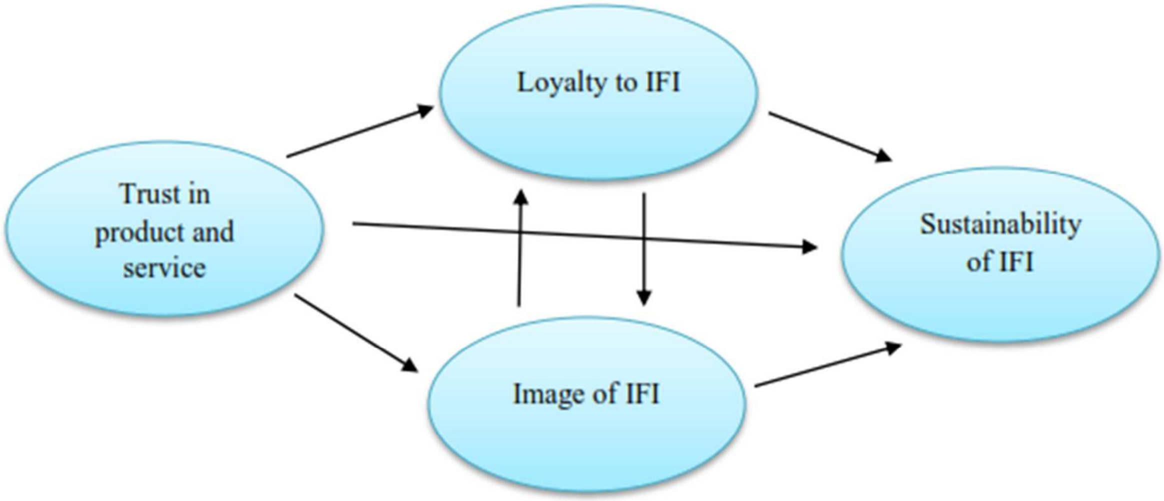

Figure 1: Theoretical framework of building trust in Islamic banking products

Loyalty is defined as an attitude and a behavior exhibited by customers in choosing one product or service over the other (Baumann et al., 2011). The satisfaction of customers is manifested by their continued dealing with the bank and speaking positive of it and vice versa. When they are dissatisfied, their negative reaction is much impactful (Amin et al., 2011; Kaur et al., 2012.

A positive image is viewed as an asset for any firm as this has a huge impact on customers' perception of the communications and the operations of the firm (Kang and James (2004). Furthermore, if a customer perceives the image of a business positively, the general observation is that minor mistakes made by the service provider will be ignored by the customers. In contrast if a customer has a negative perception of the image of a business, the impact of any mistake will be magnified which confirms the earlier statement. Thus, image is seen a sieve in terms of a customer's perception of quality (Kang and James, 2004). In this respect, some researchers are of the considered opinion that corporate image is 'the net result' of the interaction of all experiences, impressions, beliefs, feelings, and knowledge that people have about a company (Worcester, 1997).

In trying to put the various variables together, loyalty is seen to be influenced by image (Osman, 1993). Sirgy and Samli (1985) explained that there is a positive relationship between image and loyalty, and this resulted from the evaluation of customers on the perceived quality that is received from the business. Moreover, Ball et al (2004) found that image has an indirect impact on loyalty through the lens of satisfaction and trust, and trust in turn has a marked impact on loyalty. Furthermore, Ball et al (2004) concluded that although the relationship between image and loyalty in the banking industry is important, the relationship is mediated by satisfaction and trust indirectly. Accordingly, Flavian et al. (2005) conducted a study on the relationship between corporate image and trust in conventional and the online banking industry. The results suggested that corporate image serves as an important enabler in the formation of customer trust in the two banking segments: traditional and online and this point to the fact that, corporate image is an essential factor of trustworthiness as agreed by Mukherjee and Nath, (2003). Ba (2001) explained the impact of reputation on trust as where customers felt discouraged to commit to a bank when they felt that the bank had a bad reputation. It appears that when a customer trusts a brand, that customer is also likely to build a positive behavioral attitude towards it (Lau and Lee, 1999). Morgant and Hunt (1994) explained that trust develops positive attitudes in enhancing customer loyalty, and Ha (2004) suggests that high level of trust has the potential of turning a satisfied customer to be loyal.

In Islamic banking, the customers may be religiously motivated but not so concerned about the reliability and image of the service they receive, and turn to rather attach so much importance to impressions of sincerity, trust, and the religious aspects of the service (Jabnoun and Khalifa, 2005). The branding of Islamic Finance as an alternative system has been carefully built on the notion that it is reliable because of its ethical and religious orientation and also that its objectives are transparent and fair as enshrined in the foundational philosophy of justice in Islam. Equally, the process, product and people are trustworthy because they are part of Shari'ah compliant framework that guarantees both the integrity and productivity for the economic investments. Thus, the customers believe that they 'know' that their money is not invested in unethical or impermissible ventures, but that they are part of an investment system with shared goals and principles. Where Islamic Finance has succeeded, the confidence and trust through good business practice is evident. Its failure to scale up in other countries has been this deficit of trust in its ethical basis and/or its financial robustness.

The ideals of IF have always not matched the reality of its performance. Over the years, research outcomes and industry interactions indicate that stakeholders within and outside the IF industry have multiple concerns regarding some of the aspects of the IF industry. This has been illustrated in the below Venn diagram which classifies stakeholders into 4 groups (which could have some overlap in reality). The groups are

1. Customers: This group represents the market opportunity for IF institutions and products.
2. Academia: Academic scholars from various disciplines such as economics, finance, Islamic sciences, law, anthropology, etc. who have looked at IF.
3. *Shari'ah* scholars: This group represents the scholars on *shari'ah* boards in typical IF institutions, in-charge of monitoring *shari'ah* compliance.
4. Secular observers: A broad category of observers interested in the phenomenon of IF including activists, regulators in secular nations, banking professionals, etc.

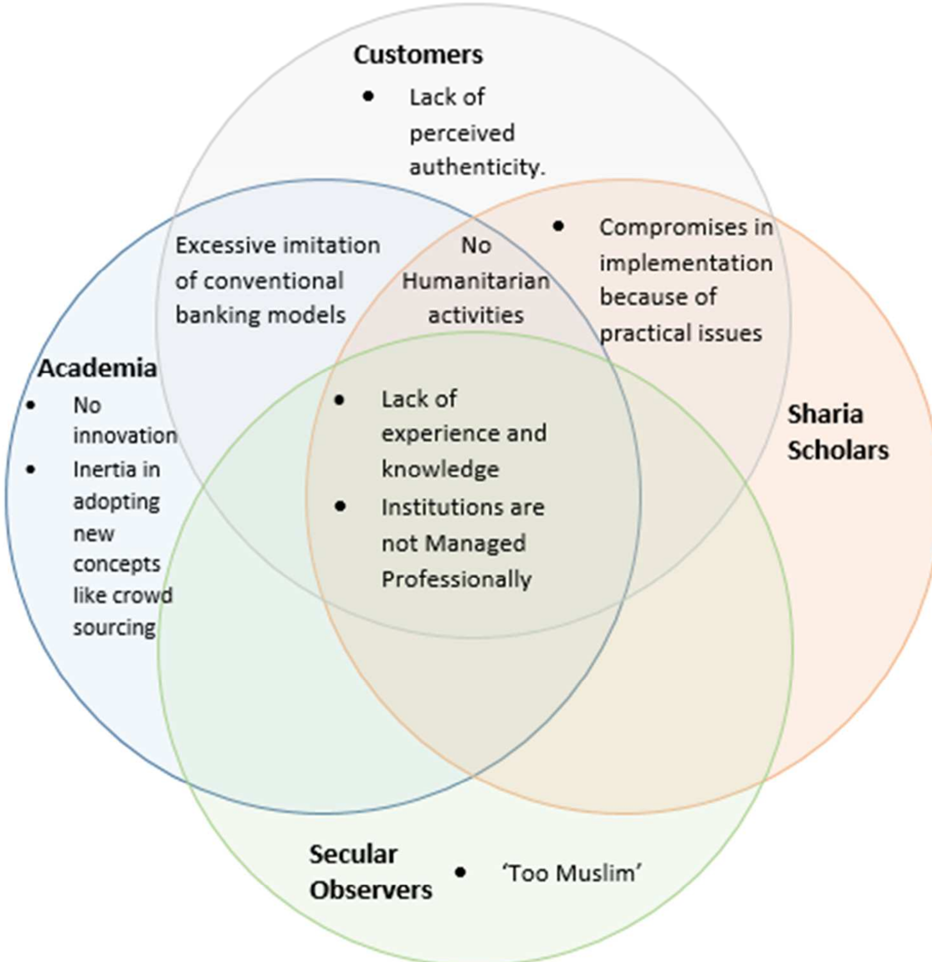

Figure 2: Islamic Finance: Issues leading to distrust among stakeholders

At the core of the issues resulting in distrust is the opinion that a majority of the financial products being branded as Islamic show a lack of adherence to true teachings of the intent of Islamic law (*maqasid al-shari'ah*) (Dusuki and Abozaid, 2007). Many banks today are seen to be merely practicing "Islam" by name without fulfilling the real objective of *maqasid*. This could be seen from several unethical practices such as *tawarruq*[1] whereby it is just a mere attempt to circumvent the existing rules in place. Some criticize the IF differentiator hypothesis and quick

[1] *Tawarruq* is the mode through which some Islamic banks provide personal financing to facilitate the supply of cash to their customers. As used in personal financing a customer purchases a commodity from the bank on deferred payment basis; the customer then sells the commodity in the market to a third party for cash. http://www.islamic-banking.com/glossary_t.aspx

to make reference to the Islamic mortgage finance in US as *riba* in Islamic dress. For instance, they are not convinced why an 'Islamic mortgage' is 'Islamic' if the calculation of the payment structure and schedule is undistinguishable to that of a conventional, interest-based mortgage. This questions the calculative rationalities of the numbers if IF is identical to those of conventional finance? (Maurer, 2008). This and many others have made some observers to take a step back to demand the true value proposition of IF products. The causes of concerns, and the response from the IF industry to deal with the distrust, can be illustrated by the lens of legal guarantees, product integrity and governance issues.

Legal Framework

To augment trust in Islamic Finance, there has to be strong legal and regulatory framework protecting all participants in IF. Instead of relying on moral and religious notions, the guarantees have to be upheld by a fully functioning enforceable legal regime. The major practical breakthrough for IF has been professionalizing of the system where IF is regulated and governed with the same level of scrutiny and accountability as conventional finance. This is aided by the fact that in Islamic law, material interests of consumers and other stakeholders are generally upheld by the means of contracts, regulations and consumer protection measures. These formal contractual bindings of IF promote the practical execution of this trust. However, even though the contractual basis of IF emerges from Islamic law, it is enforceable in global and secular jurisdictions. From the processes, issuance or ratings (for example, Sukuk or Islamic bonds) to the default or bankruptcy procedures, transparency and governance are key to trust of consumers and investors in IF products. Regulators in different jurisdictions are showing a keen interest in accommodating IF requirements and capital market and stock exchanges are developing screening for Islamic stocks (Alexakis and Tsikouras, 2008).

Shari'ah Compliance

Islamic Finance is often simply defined as Shari'ah compliant finance. When customers see that the end products offered by IF institutions are virtually similar to their conventional counterparts, their faith in the institution and in some cases in the industry and even in the concept of IF is affected adversely. Islamic finance models are unfortunately perceived to follow the lead of conventional banking models rather than provide innovative products that are economically relevant to the people. This is seen as contradictory by many observers, as the crux of the promotion for IF is that it is inherently more equitable and sustainable than conventional banking practices ((El-Gamal 2006). Maurer, referring to the debate over permissible *sukuk* (Islamic bonds) refers to the question of whether the structures are *shari'a* compliant in form only, not in substance. He also notes that the role of *sukuk* in neoliberal reform and the privatization of state resources reveal a deeper potential conflict between Islamic standard□setting bodies and global neoliberal projects more broadly (Maurer 2010).

The criticism goes deeper in some quarters as some of the basic compromises made by *shari'ah* scholars – such as popular ruling allowing investors to purchase stocks of companies that have a certain part of their income from prohibited sources or have up to a certain amount of interest bearing debt on their books are not universally accepted. Such leeway would not be possible under a strict interpretation of Islamic law. As a result, IF in its present form seems to be a secondary or alternative banking model and this in turn will exhibit a docile and less aggressive banking/investment model which is more interested in high profile compromises rather than work to assist the people who are its potential account holders (El-Diwani, 2010). One of the ways in which IF industry and governments are trying to build trust is by demystifying IF as well as demonstrating greater oversight of regulation and *shari'ah*-compliance.

Managerial/Competency Issues

Zainol et al. (2008) determined that bankers in Islamic windows had low knowledge and little understanding of Islamic banking concepts, objectives and principles which increases the chance of mismanagement of these institutions. This lack of knowledge and experience by Islamic Banking staff and the failure to adhere to standard protocols in the Finance industry has led to the impaired image of some Islamic banks and institutions and this has affected the level of trust in the sector. Poor organizational management of Islamic banks, such as failing to deploy the right skills in managing the unique IF contracts as most banks hire conventional bankers to run Islamic banks is also contributory factor in mismanagement.

Emerging models such as crowdfunding and blended finance have the potential for considerable innovation and penetration, but has not been embraced by IF academia. This has been mostly because of a lack of marketing know-how and awareness. Crowdfunding takes some features of traditional resource-pooling and social-networking phenomena with added innovations such as involving consumers who act as investors, providing monetary support to others' proposals and expecting some payoffs which comes either in monetary or non-monetary (Ordanini, 2011). Crowdfunding by their nature perfectly matches the IF proposition of providing finance for both profit and not-for profit motives. With regards to the equity based crowdfunding for instance, *mudarabah* or *musharakah* contracts can be used to support entrepreneurs with bankable ideas with the crowd taking in equity in the business after it passes through *shari'ah* screening.

Limited social role

World leaders have referred to Islamic Finance as a viable option after the economic crises (Claessens et al 2012), and religious leaders also talk about IF transformational tool (World Economic Forum and Chaves and Cann 1992). In contrast to high expectations, on its path to convergence with conventional banking, Islamic banks and financial institutions have been attacked as compromising on their moral economy related objectives and outcomes by locating themselves within neoclassical economics. In other words, their attachment to efficiency has been at the cost of 'equity and the social impact of IF are yet to be emphasized and implemented properly' (Asutay, 2012). The lack of humanitarian activities by IF institutions calls into question the commitment of the institutions towards Islamic values (for instance inability to support genuine defaulters in their time of need). Helping borrowers by reducing their debt burden is a basic recommendation in Islam. The industry argument that at the end of the day IF is a business driven initiative does not hold ground if IF is going to use Islam as its model designation and brand offering. Thus, a rethinking of Islamic Development Finance and Islamic Social Finance is long overdue if trust in its broader vision and objective as alternative finance is to be seriously taken.

Islamic Finance absorbing 'Islamic' stereotypes

The notion that Islamic Finance is religiously ordained practice cuts both ways. It encourages the faithful, with mixed results, to embrace IF but its puts off various other categories. Where IF has succeeded, it has been owing to its branding as ethical finance. The challenges that IF faces, inherent in the stereotyping of Islam itself are evident from the example of the United States. Post 9/11, there was a dramatic surge in the percentage of American non-Muslims who viewed Islam and related entities in a negative light. Among these entities was IF and banking, considered by some to be the source of funding for terrorist organizations around the world (Ali, 2013). A trillion-dollar lawsuit filed on behalf of the families of the victims of 9/11 named seven banks and eight Islamic foundations as accomplices to terrorism. James Godec, the managing director of Key Global Capital in Boston stated that among the top concerns for the industry in the Fall of 2001 was that assets of Islamic banks would be frozen indiscriminately (Raja, 2002).

Despite a significant amount of organizations, seeking to work according to *shari'ah*, the attitude of the public towards IF remains very cautious. These fears are based on the negative statistics connected with informal money remitter *hawala*. The lack of confidence is based also on a weak awareness of financiers and clients about basics and principles of functioning of the Islamic financial system (Malyaev, 2014). These and several other factors have contributed to the distrust within IF circle.

To augment trust, IF needs to improve legal regulation, adherence to Islamic tenants, innovation and management as well as respond to the social and development agenda. IF is being challenged not only to maximize its market share but to do it differently as per its promise as ethical and alternative finance. In the next section, the role facilitators in addressing the concerns among the different stakeholders and rebuilding trust are reviewed.

How Trust can be Built?

Building trust in IF practice would be to increase transparency, plan honest yet innovative marketing strides and involve Islamic scholars in product development and publicize existing products. Engaging the stakeholders through events and meetings to get their input is also important in the process of developing trust. This process will help address the trust deficit, making customers become more loyal and various stakeholders will have a positive perception of the authenticity of IF which will enhance the reputation of the IFIs.

Sustainability of the IF sector would be strengthened through stakeholders' consensus on IF tenants in practice as a financial business model. Interrogating IF, a field of religion, would strengthen the inter-religious trust thereby recognizing diversity within and between religions in every society. In promoting the most important ingredient in trust building, communication and negotiation, using a multi-stakeholder model, perhaps mediated by the Academia, could be explored.

A pioneer in knowledge exchange and trust building activities is Harvard University which began with its groundbreaking research in 1994, with the *Islamic Investment Study* which was conducted by Samuel Hayes of Harvard Business School and Frank Vogel of Harvard Law School. This study culminated in the form of a publication, *Islamic Law and Finance: Religion, Risk and Return*, which drew wide interest in IF, and outside professional boundaries, bridging the gap between East and West and bringing together various stakeholders. Using evidence-based studies, researchers sought to address gaps in IF and involve various stakeholders.

Since then, Harvard University Islamic Finance Project (IFP) has served as a catalyst in trust building around IF through the use of soft power[2] tools such as providing platforms for dialogue, providing IF an association with the Harvard name, identifying beneficial financial tools and discussing universal human values. As a result of Harvard's dialogue promoting activities, a number of new initiatives, concepts, institutions, developments and gateways emerged such as the IF index, Social finance, Home mortgages, academic programs.

Initiating Dialogue among Stakeholders

Harvard University Forum on Islamic Finance was initiated in early 1997 to provide a platform for ongoing dialogue within and outside IF group. Over the years the Forum fostered a sense of community among researchers, academicians, and sector experts, promoting healthy debates and collaborations among academics, practitioners, institutions, and the general public. With the active involvements of stakeholders contributing to the development of IF and its continual

[2] Soft power was coined by Joseph Nye of Harvard University in 1990. It means to achieve your goals through the use of your values, cultures, policies and institutions rather than by force or coercion.

knowledge sharing to the public through the initiatives by Harvard University, IF has gained ground and its awareness has been created at almost every level of society. The members of the audience came from varied backgrounds, religious communities and businesses such as Socially Responsible Investing (SRI), ethical financing and faith-based investments.

Throughout the active period of the IFP (1997-2014), it hosted 11 forums on IF, encouraging a holistic approach to exploring ideas, exchanging views and analyzing the scholarship in a supportive, bias-free atmosphere. They were well attended and provided opportunities for researchers and authors to express their ideas on carefully selected themes such as Islamic social finance, building bridges across financial communities, and Innovation and authenticity. The lessons learnt from the Forum, particularly its sessions such Social Finance and Microfinance is that more needs to be done to improve financial inclusion and build trust and participation among excluded groups, particularly minorities, women, displaced and particular age groups.

Engaging Shari'ah Scholars

Distrust between *shari'ah* scholars, industry leaders and academics is one of the major reasons for the distrust in IF and this has been a barrier to spreading a unified message about IF. The Harvard-London School of Economics Workshop has been held annually since 2007 and is a specialized workshop on methodological issues confronting the field of Islamic business and finance. Operationally it is accompanied by a public lecture on contemporary issues confronting IF. A diverse group of experts participate in the workshop, including distinguished Islamic legal experts, academicians, Islamic economists, bankers, and lawyers. This platform allows key stakeholders to refine their message and get closer to a consensus on the application of IF.

Addressing Social Finance

One of the key areas of distrust in IF is in the fact that IF does not consistently promote and initiate social finance. Harvard played a crucial role in initiating a platform to create synergies between the industry leaders with successful experience in microfinance such as Citibank, Grameen, and Islamic financial community leaders. Two symposiums on this topic were conducted in 2006 and culminated in the publication of the book *shari'a-compliant Microfinance* (Ali, 2007). This book shared best practices and brought the issue of Social Finance to the forefront of the discussion of IF, building trust among stakeholders.

Addressing Islamophobia

The general public's distrust of the Islamic label of IF led to a study on the effects of 9/11 on the perception of IF. This study was commissioned in response to the growing concern and inquiries IFP received after 9/11 when greater scrutiny on Islam posed greater hurdles for the implementation of IF. The study found there was increased coverage after 9/11 by the media which provided greater scope and opportunity for IF industry to grow and to prove its legitimacy. As a result, more people became aware of IF and business increased. In proving its legitimacy, IF also managed to alter the perception of the Muslim moral & social stance by exhibiting tolerance to various economical and financial models and its readiness to learn from them for self-improvement while maintaining its principal moral stance. It would not be farfetched to claim that after 9/11 IF became an economic representative of Muslim identity and its continuous success validated the Muslim stance on justice, equality and tolerance. The study was published in the mainstream *International Research Journal of Finance and Economics*, with a readership covering both conventional and Islamic markets (Ali & Abdur Rahman, 2010).

Public Trust: Engaging the Media

IFP worked with the news and media constantly in providing authentic information on the industry. The 9/11 incidents made non-Muslims in general unable to trust Islam and Muslims as a result of the constant portrayal of Islam as being intolerant and a religion of terrorism. However, the above fearful distrust is seen in the social realm alone, while the economic aspects of Islam are being embraced by the West probably best explained by the incentive to make more money and for the search for an alternative financial system, given the failure of the conventional financial system. The deemed socially misfit religion was exhibiting its true nature through the continuous success in its financial counterpart IF.

Engaging Interfaith Communities

The Islamic label sometimes obscures the universal human values IF embodies. To highlight synergies across faith communities, Harvard held a panel discussion called *Building Bridges across Financial Communities* that engaged professionals in finance from different communities including Buddhists, Hindus, Christians and Muslims representing various conventional financial institutions and Socially Responsible Investing agencies (SRI). It resulted in the 2012 book *Building Bridges Across Financial Communities: the global financial crisis, Social Responsibility and Faith-Based Finance*. This book proved the socially sound and compatible nature of IF with other faith based initiatives.

Government Trust

The IFP harnessed its academic resources to find pragmatic answers to the questions confronting governments relating to the regulation and growth of the IF sector. IFP was engaged by the U.S. Treasury to conduct two seminars and a roundtable at the Federal Reserve Bank of New York. IFP regularly communicated with governors of central banks in various countries for creating better understanding of Islamic banking and finance. Under this, Secretary John Taylor was the keynote speaker of the Harvard Forum in 2006. Here, capitalizing on an established reputation helped to put forward the agenda of IF.

Academic Trust

IFP managed to attract and build trust with professors and researchers to involve them in its activities. Most notably were Nobel Laureate Robert Merton, Noah Feldman, Willem Buiter, Jeffrey Sachs, William Blair, Baber Johansen, Samuel Hayes, Frank Vogel, and other prominent speakers. IFP has consistently supported Harvard students in their research endeavors and provided them the best possible support in writing their theses/dissertations/term papers.

Case Study in Building Trust in Shari'ah-Compliant Home Finance in the United States

The characteristics of the most successful trust building exercise is that they address a current or urgent issue, they allow stakeholders to meet, they provide concrete solutions to the problem. A great example was Harvard's *Shari'ah-Compliant* Home Finance event in 2013. It responded to the US housing crash facilitated by the predatory lending practices of conventional banks, offering *shari'ah-compliant* home financing as an alternative.

This event encouraged discussion regarding distrust and the negative perception towards Islamic home finance in the United States expressed by community members (Ali, 2013). The first two major challenges to successfully introduce *shari'ah-compliant* services are providing competitive pricing and competitive services. *Shari'ah-compliant* home finance aims at Muslims in the higher end of the middle class market.

It was felt that the financial industry in the U.S., regardless of the product or service sought or offered, is built first and foremost on trust (Greinera and Wang, 2010). Conventional financial institutions, the competition, have a distinct advantage in this regard. Many of them have branded themselves to become household names with historical presence that may extend as far back as a century or more, and a physical presence in neighborhoods and suburbs having a high concentration of Muslims. All of these may be considered obstacles in the development of *shari'ah-compliant* businesses. They may also be considered healthy competition and motivation. These perceived hurdles and obstacles actually pose an opportunity for IF to improve upon from their success and failures. Other challenges to the industry come from within the United States Muslim community itself. In addition to those alluded to earlier including competitive pricing, competitive services, and *shari'ah* authenticity, we may add the need to overcome inertia, skepticism, doubt and fear (DeLorenzo, 2013).

These limitations can be overcome by:

a) Innovation in IF products so as to develop a product line which has maximum penetration in all sectors of IF.

b) Developing a product line which is path breaking in a manner which is different from the conventional banking model but at the same time more relevant for masses of all economical class.

c) The non-Muslim community needs to see the humane and the socially viable side of the IF model, for which the IF industry needs to work closely with the local NGO's so that they can develop studies of social impacts and fund and assist these NGO's to attain their socially viable and uplifting targets. This when done in an unbiased form will not only gain trust in the economic sector but also lead to deeper penetration of the banking sectors.

d) The deeper penetration of IF products and activities will lead to lesser compromise on its *shari'ah* compliancy which will lead in turn to a further positive effect on the social sector. This cause and effect will increase the demand of IF industry products and increase its legitimacy as a preferred banking model in any region of the world.

e) The Muslim community can be convinced only if there is a deeper penetration of IF products in the market which can relate to everyday person on the street. The reason for this is that non-intricate financial products that is easily understood by consumers to help in their decision making and measuring the risks that may be involved therein. Their trust is built upon better understanding and the observance of a higher uptake of IF services.

f) Another great endeavour would be for the IF industry to develop interactive programs in all madrasa's about IF and encourage all Friday Masjid Imams to periodically learn about the complication of IF and the difference between them with the conventional banking models. This interaction in turn will be blessing in disguise as the bond with the religious scholars and the IF scholars and researchers will lead to further innovation which can be beneficial for the industry and consumers.

g) The Friday sermon Imams should be encouraged to speak on IF education as a part of the *khutba*, which will educate the Muslim masses on IF and conventional banking financial literacy.

Case Study in Building Trust among Various IF Industry Stakeholders

The discussions and debates at the Harvard Forums resulted in a need for an ongoing, rigorous scholarly and pragmatic conversation between the major proponents and stakeholders such as: economists, *shari'ah* experts, key industry practitioners, regulators and legal professionals. After serious consultation with several experts, the IFP came up with a discussion group representing participation from various stakeholders. This discussion group organized its first workshop in 2006 under the supervision of Frank Vogel at Harvard in which several prominent economists and *shari'ah* experts discussed some of the most pressing issues. The meeting was timely to advance the understanding of key issues and increase cooperation among economists and *shari'ah* experts. The format was highly appreciated and the decision was made to continue with it. It was recommended that the next workshop should be held in London.

The IFP decided to collaborate with the LSE in co-hosting the workshop. Since 2007, this annual "Workshop" has become another landmark event for IF stakeholders under the banner of LSE. This workshop mainly picks up methodological issues confronting the IF industry and the primary aim is to fill the conversational void among various stakeholders; especially between *shari'ah* scholars and Islamic economists. These workshops also attract participation from legal experts, regulators and industry leaders who are involved in day to day operations.

A series of workshop were held on various topics and provided excellent avenues for stakeholders to work through their internal issues and difference and to create better understanding and trust. This workshop series is considered to be one of most appreciated and acclaimed events in the field of IF. List of topics covered from 2007 to present are listed below and links to short reports of each of workshop are presented in the reference. Specific themes chosen through consensus and debated by IF professionals, economists, *shari'ah* scholars and industry leaders. The immense popularity of these workshops for the quality discussion and dialogue were especially instrumental in closing the gap and building trust between academia and economists on the one hand, and *shari'ah* scholars and the industry on the other.

- 2014 Use and Abuse of Limited Liability (Ali, 2014)
- 2013 Insolvency and Debt Restructuring in IF
- 2012 Islamic Financial Intermediation: Revisiting the Value Proposition
- 2011 Reappraising the Islamic Financial Sector
- 2010 Islamic Financial Ethics and Ethical Governance
- 2009 Risk Management and Islamic Economic
- 2008 *Sukuk*: Economic and Jurisprudential Perspective
- 2007 *Tawarruq*: A Methodological Issue in *Shari'a*-Compliant Finance

In order to encourage all participants to share their thoughts freely, the workshop is held with a closed-door policy. It is invitation-only and no sensitive matter discussed in the workshop is leaked or attributed to any particular participants. The above themes were selected through preferential voting by workshop participants and key industry leaders and scholars. The theme normally deals with policy matters.

All workshop participants are required to send their comments on the chosen theme much before their arrival at the workshop and the same is distributed among all participants to help facilitate an engaging and insightful dialogue and reflection.

The impact of the workshop through its discussion is that:

- It created better understanding among the stakeholders and built the trust and narrow the gap; which is evident from the fact that of their continuous participation.
- It helped and influenced the stakeholders in their decision making and policy setting matters in their respective situations.
- It earned as an established platform (though it did not claim to be any official body with extensive power) to bring issues of concern which involved greater discussion to build the trust and confidence among the stakeholders

CONCLUSIONS

Trust emerges as a key component of Islamic Finance's success as well as its limitation, in practice. If Islamic ethos is a commitment to justice, mercy and a way of positive and proactive life, IF as a branch of Islamic should also reflect the same. In fact, IF is an expediency and compromise between high spiritual objectives and the resilience of conventional finance systems. Therein lays the conundrum of trust in Islamic finance, balancing its religious aspiration and practical adaptation. Consumer and investor trust of various stakeholder groups may converge or vary, sometimes conflict. For example, at a broader level, Muslim and non-Muslim actors may have differing conceptions or perceptions of what is acceptable or what builds trust. For instance, to some non- Muslims, the branding of IF too closely with Islam (i.e. too Muslim), may raise concerns about its outputs due of misinformation and unawareness of Islam itself. For Muslims, the issue may be lack of emphasis on the *shari'ah*-compliance of the products and services offered (i.e. not Muslim enough). Though, trust building in IF is more than just attitudes towards religion, it is often related to expectations or perceptions of Islam in general (Ali 2013).

It is generally established that when there is distrust among various stakeholders within the Islamic banking sector, the sustainability of the sector is threatened as the fiduciary risks magnifies and this poses a big threat to the larger economy as a result of the linked balance sheet in the banking system. The impact of developing trust in Islamic banks is not just for the long-lasting of interactive relationship between banks and customers, but the performance of the Islamic banks in convincing customers and stakeholders that basing their business operations on the *shari'ah* is necessary and fundamental as Muslim patrons are motivated by the *shari'ah* compliance which serve as a signal for building trust on the products they offer. The various stakeholders' engagements and interactions has created a unique platform for the assessment of the Islamic banking model in practice and ways to address the trust deficit in the sector.

It has always been rightly argued by the proponents of IF that IF has compromised in the past (lack of rigorous *shari'ah-compliance* and will to come up with radical solutions) as per the leniency given by Islam to Muslims for a compromise in the face of extreme adversity to attain the greater benefit for self or society. But many can argue that this cannot stand true with IF, if the Islamic Financial model is not constantly striving for complete *shari'ah* compliancy in letter and spirit with sincere aggressiveness (using soft power of course). Compliance and authenticity are necessary to achieve global trust for Islamic Financial models.

The IF in its pure form also reflects the confidence of the financial models in their own basic principles of finance. If IF industry does not show this, it questions its own merit and sincerity to provide an honest product to the non–Muslim or Muslim realms of society. Islam and its *shari'ah* have always in essence been understood and presented as a means of a successful way of life, and striving for *shari'ah-compliance* translates as sincerity of IF models to benefit mankind globally. In particular, Islamic social finance needs to be closely linked with Islamic Financial models, as this link emphasizes the altruistic aspect embedded in Islamic teachings and assists the IF industry in achieving greater penetration in the market.

The varied array of entities looking to practice some form of IF is impressive, but the industry has to promote transparency, innovation and appropriate marketing and the commitment to the ideal value proposition of IF. It also has to internalize and play its trump card that the inherent desire of anything associated with Islam is to benefit mankind, and help humanity along a path of spiritual and worldly self-improvement. The first step in this path for the IF industry is to distinguish itself from conventional finance models not only in its compliancy to *shari'ah*, but in its seeking to improve the welfare of humanity in general.

REFERENCES

2013 Insolvency and Debt Restructuring in Islamic Finance
http://ifpprogram.com/login/view_pdf/?file=HLS_LSE_WORKSHOP_2012_REPORT.pdf&type=workshops

2012 Islamic Financial Intermediation: Revisiting the Value Proposition
http://ifpprogram.com/login/view_pdf/?file=LSE_Workshop_2012_Report.pdf&type=workshops

2011 Reappraising the Islamic Financial Sector
http://ifpprogram.com/login/view_pdf/?file=Reappraising_the_Islamic_Financial_Sector.pdf&type=workshops

2010 Islamic Financial Ethics and Ethical Governance
http://ifpprogram.com/login/view_pdf/?file=Harvard-LSE%20Workshop%202010.pdf&type=Anouncements

2009 Risk Management: Islamic Economic and Ethico-legal perspective on Risk Management
http://ifpprogram.com/login/view_pdf/?file=Riskmangement.pdf&type=seminars

2008 *Sukuk*: Economic and Jurisprudential Perspective
http://ifpprogram.com/login/view_pdf/?file=sukuk%20workshop%20%20short%20report.pdf&type=workshops

2007 *Tawarruq*: A Methodological Issue in Shari'ah-Compliant Finance
http://ifpprogram.com/login/view_pdf/?file=Tawaruqq.pdf&type=workshops

Alexakis, Christos and Alexandros Tsikouras , Islamic Finance: regulatory framework – challenges lying ahead, *International Journal of Islamic and Middle Eastern Finance and Management*, 2 (2), 2008, pp. 90-104.

Ali, S Nazim(2014). The Use and Abuse of Limited Liabilities. *New Horizon*, No. 191, 2014, pp. 43-46.

Ali, S.Nazim (2013). Perceptions Surrounding the Contemporary Practice of Islamic Finance. *New Horizon*, No. 138, 2013, pp. 12-16

Ali, S.Nazim. *Shari'a-Compliant Microfinance*, London: Routledge, 2011, 295p.

Ali, S. Nazim and Syed, Abdur-Rahman (2010). Post-9/11 Perceptions of Islamic Finance. *International Research Journal of Finance and Economics*, Issue 39, 2010, pp. 27-39.

Ali, S.Nazim (2007). Financing the Poor: Towards Islamic Microfinance. *New Horizon*, July-September, 2007. pp. 18-20

Amin, M., Isa, Z. and Fontaine, R. (2011), "The role of customer satisfaction in enhancing customer loyalty in Malaysian Islamic banks", *The Service Industries Journal*, 31 (9/10), 2011, pp. 1519-32.

Appaduraij A. (1986). Introduction: commodities and the politics of value. In: *The Social Life of Things: Commodities in Cultural Perspective*, edited by Appaduraij A. Cambridge, UK: Cambridge Univ. Press, 1986.

Asutay, M., 2012. Conceptualising and locating the social failure of Islamic Finance: aspirations of Islamic moral economy vs. the realities of Islamic finance. *Asian and African Area* Studies, 11(2), 2012, pp.93-113.

Åström, H.O. "Survey on customer related studies in Islamic banking." *Journal of Islamic Marketing* 4.3 (2013): 294-305.

Awan, H. M. and Bukhari, K. S. (2011). "Customer's criteria for selecting an Islamic banks:evidence from Pakistan", *Journal of Islamic Marketing*, 2 (1), pp. 14-27.

Ba Sulin (2001), "Establishing Online Trust Through a Community Responsibility System", *Decision Support Systems*, 31 (3) 2001, pp. 323-336.

Ball, D., Coelho, P.S. and Machas, A. (2004), "The role of communication and trust in explaining customer loyalty: an extension to the ECSI model", *European Journal of Marketing*, 38 (9/10), 2004, pp. 1272-1293

Baumann, C., Elliott, G. and Hamin, H. (2011), "Modelling customer loyalty in financial services: a hybrid of formative and reflective constructs", *International Journal of Bank Marketing*, 29 (3), 2011, pp. 247-67.

Berry L L (1995), "Relationship Marketing of Services - Growing Interest, Emerging Perspectives", *Journal of the Academy of Marketing Science*, 23 (4), 1995, pp. 236-245

Carruthers, B and Kim, J (2011) The Sociology of Finance 37 *Annual Review of Sociology* 239-259

Chaves, M. and David Cann (1992). Regulation, Pluralism, and Religious Market Structure: Explaining Religion's Vitality. *Rationality and Society*, 4 (3), 1992, pp. 272-290.

Choudhury M A and Hussain M M. (2005), "A Paradigm of Islamic Money and Banking", *International Journal of Social Economics*, 32 (3), 2005, pp. 203-217.

Claessens, Stijn ; Kose, M. Ayhan; Laeven, Luc and Valencia, Fabián eds (2012). Financial Crises: Causes, Consequences, and Policy Responses. Proceedings from the IMF Research Center Conference 14 September 2012. Available at: https://www.imf.org/external/np/seminars/eng/2012/fincrises/pdf/ck.pdf

DeLorenzo, Y.T. (2013). Discussion Paper Presented at Harvard Law School on Shari'a-compliant Home Financing in the United States: a short report. Harvard University: Harvard Islamic Finance Project, April 6, 2013. Available at http://ifpprogram.com/login/view_pdf/?file=HLS_Report_2013.pdf&type=workshops

Dusuki, Asyraf Wajdi and Abozaid, Abdulazeem (2007). A critical Appraisal on the challenges of realizing Maqasid Al-Shari'ah in Islamic Banking and Finance, *International Journal of Economics, Management and Accounting*, 15 (2), 2007, pp.143-165.

El-Diwany, Tarek (2010). *The Problem with Interest*, 3rd edition, London: Kreatoc Ltd., 2010, 288p.

El-Gamal, Mehmoud A. (2006). *Islamic Finance: Law, Economics and Practice*. New York: Cambridge University Press. 2006.

Flavian, C., Guinaliu, M. and Torres, E. (2005), "The influence of corporate image on consumer trust", *Internet Research*, 15 (4) 2005, pp. 447-70.

Greinera, Martina E. and Wang, Hui (2010). Building Consumer-to-Consumer Trust in E-Finance Marketplaces: An Empirical Analysis, *International Journal of Electronic Commerce*, 15 (2), 2010, pp. 105-136

Ha H-Y (2004), "Factors Influencing Consumer Perceptions of Brand trust Online", *Journal of Product and Brand Management*, 13 (5), 2004, pp. 329-342.

Hanafi A A and Sallam H (1997). "Business Ethics: An Islamic Perspective", In: Islamic Principles of Business Organization and Management, edited by F R Faridi. Kuala Lumpur, S Abdul Majeed & Co., 1997.

Hesse, Heiko Andreas A. Jobst & Juan Solé (2008). Trends and Challenges in Islamic Finance, *World Economics*, 9 (2), 2008, pp. 175-193.

Hoq, MZ, Sultana, N and Amin, M (2010). "The effect of trust, customer satisfaction and image on customers' loyalty in Islamic banking sector." *South Asian Journal of Management* 17.1 (2010): 70.

Iqbal, M., Aḥmad, A. and Khan, T., (1998). *Challenges facing Islamic Banking*. Jeddah: Islamic Research and Training Institute, 1998.

Iqbal, Zamir and Mirakhor, Abbas (2007). *An Introduction to IslamicFinance, Theory and Practice*, Singapore: John Wille & Sons (Asia) Pvt. Ltd., 2007, 410p.

Kang, G.-D. and James, J. (2004), "Service quality dimensions: an examination of Gronroos's service quality model", *Managing Service Quality*, 14 (4), 2004, pp. 266-77.

Kaur, G., Sharma, R.D. and Mahajan, N. (2012), "Exploring customer switching intentions through relationship marketing paradigm", *International Journal of Bank Marketing*, 30 (4), 2012, pp. 280-302.

Kayed, R.N. and Hassan, M.K. (2011), "The global financial crisis and Islamic finance", *Thunderbird International Business Review*, 3, 2011, pp. 551-64.

Lau G and Lee S (2000), "Consumers' Trust in a Brand and Link to Brand Loyalty", *Journal of Market Focused Management*, 4 (2), 2000, pp. 341-70.

Malyaev, V., (2014). The application of Islamic financial products in the Russian Federation. In Sgem 2014 Conference on Political Sciences, Law, Finance, Economics and Tourism, SGEM2014 Conference Proceedings, 1-9, Vol. 2, 2014, pp. 689-696.

Maurer Bill (2006). *Pious property: Islamic mortgages in the United States*. New York: Russell Sage Foundation, 2006.

Maurer, Bill (2008). Socializing finance? Or dressing it in mufti? *Calculating Alternatives for Cultural Economies. Journal of Cultural Economy*, 1(1), 2008, pp.65-78.

Maurer, B (2010) "Form versus substance: AAOIFI projects and Islamic fundamentals in the case of *sukuk*",*Journal of Islamic Accounting and Business Research*, Vol. 1 Iss: 1, , 2010, pp.32 - 41

Mohamad, N. and Ab Rahman, A., 2014. "Tawarruq application in Islamic banking: a review of the literature." *International Journal of Islamic and Middle Eastern Finance and Management*, *7*(4), 2014, pp.485-501

Moorman C, Deshpande R and Zaltman G (1993), "Factors Affecting Trust in Market Research Relationships", *Journal of Marketing*, 57 (1), 1993, pp. 81-101.

Morgan R and Hunt S (1994), "The Commitment-Trust Theory of Relationship Marketing", *Journal of Marketing*, 58, 1994. pp. 20-38.

Mukherjee, A. and Nath, P. (2003), "A model of trust in online relationship banking", *International Journal of Bank Marketing*, 21(1), 2003, pp. 5-15.

al-Munajjid, Shaykh Muhammad Saalih (2016).. Do not betray the one who betrays you. Principles of Fiqh. Jurisprudence and Islamic Rulings -Transactions - Forbidden Kinds of Wealth (Islam Question and Answer). Available at: http://islamqa.info/en/40649 accessed on April 26, 2016

Naceur, Jabnoun and Azaddin, Khalifa (2005), "A Customized Measure of Service Quality in the UAE", *Managing Service Quality*, 15 (4), 2005, pp. 374-388

Okumuş, H. Şaduman, (2015) Customers' Bank Selection, Awareness and Satisfaction in Islamic Banking: Evidence from Turkey, 6:4 *International Journal of Business and Social Science*, 6 (4) , 2015, pp.41-54

Ordanini Andrea, Lucia Miceli, Marta Pizzetti, A. Parasuraman (2011). "Crowd-funding: Transforming Customers into Investors through Innovative Service Platforms." *Journal of Service Management*, 22 (4), 2011, pp. 443–470

Osman M. Z. (1993), "A Conceptual Model of Retail Image Influences on Loyalty Patronage Behaviour", *The International Review of Retail, Distribution and Consumer Research*, 31, 1993, pp. 149-166.

Patrick, A.S. (2002). "Building trustworthy software agents." *IEEE Internet Computing*, 6(6), 2002, pp. 46-53.

Raja, Fatima (2000). Islamic Finance in the Contemporary Context. In: *Proceedings of the Fifth Harvard University Forum on Islamic Finance: Islamic Finance: Dynamics and Development,* Cambridge, Massachusetts. Center for Middle Eastern Studies, Harvard University. 2000. pp. 277-280

Rousseau, Denise M. Sitkin, Sim B; Burt, Ronald; and Camerer, Colin (1998). Introduction to Special Topic Forum Not So Different After All. *Academy of Management Review*, 23 (3), 1998, pp. 393-404

Rudnyckyj, D. (2004). Technologies of servitude: governmentality and Indonesian transnational labor migration. *Anthropological Quarterly,* 77 (3), 2004, pp. 407-434.

Rudnyckyj, D. (2014). Economy in practice: Islamic finance and the problem of market reason. *American Ethnologist*, 41(1), 2014, pp.110-127.

Rudnyckyj, D. "Spiritual economies: Islam and neoliberalism in contemporary Indonesia." *Cultural Anthropology* 24.1 (2009): 104-141.

Sauer James B (2002), "Metaphysics and Economy: The Problem of Interest", *International Journal of Social Economics*, 29 (1-2), 2002, pp. 97-118.

Singh J and Sirdeshmukh D (2000), "Agency and Trust Mechanisms in Customer Satisfaction and Loyalty Judgments", *Journal of the Academy of Marketing Scienc*e, 28 (1), pp. 150-167.

Sirdeshmukh D, Singh J and Sabol B (2002), "Consumer Trust, Value and Loyalty in Relational Exchanges", *Journal of Marketing*, 66 (1), 2002, pp. 15-37.

State of the Global Islamic Economy, 2015/2016. Available at http://www.halalbalancing.com/Downloads/Events/2015/SGIEReport2015.pdf accessed April 26, 2016

Tugal, Cihan. (2009) *Passive revolution: Absorbing the Islamic challenge to capitalism*. Stanford University Press, 2009.

Worcester R M (1997), "Managing the Image of Bank: The Glue that Binds", *International Journal of Bank Marketing*, 15 (5), 1997, pp. 146-152.

World Economic Forum (2010). Faith and the Global Agenda: Values for the Post-Crisis Economy. Geneva, Switzerland, 2010. Available on http://www3.weforum.org/docs/WEF_GAC_FaithValuesReport_2011.pdf

Yousri, A. A. (2013) Fundamental Issues in Islamic Economics. Lambert Academic Publishing, Germany.

Zainol, Z., Shaari, R., and Muhamad, H. A. (2008).A Comparative Analysis of Bankers' Perceptions on Islamic Banking.International *Journal of Business and Management*, 3(4), 2008, pp.157-168.