**Perceptions surrounding the contemporary practice of Islamic finance**

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The perceptions revolving around the field of Islamic finance are numerous with some pundits skeptical whether Islamic finance meets the intentions of the sharia’. Amongst the general public, especially in the west, a lack of understanding of what Islam entails furthers this skepticism. Likewise, there’s a general apprehension against the finance industry especially after the financial crisis. This paper explores the various negative perceptions that the Islamic finance industry faces and suggests possible strategies and mechanisms to counter them. It achieves that by studying the causes of these negative perceptions and suggesting both institutional and strategic changes that the Islamic finance industry players can adopt. It also studies the role of academia, with research institutions such as Harvard and others in mind, in engaging Islamic finance stakeholders in a healthy discourse on the subject of Islamic finance.

During the past two decades, the industry has gained unprecedented levels of public attention because of its tremendous growth in size and scale. Its growth, however, has also led to competing claims on the direction Islamic finance should take in the local economy. For instances, in the face of rising income inequality, many observes claim that Islamic finance needs to play a larger role in alleviating the social ills of economic development. It is believed that the industry may have veered off-track and many accuse the sector of not being substantively different from conventional finance produces or of failing to realize its original economic and social ideals. A broadly indicting statement from Auditing and Accounting Organization for Islamic Financial Institutions that most *sukuk* are not actually Islamic has shaken up the sector and demonstrated the lack of confidence in Islamic finance both within and outside of the industry.[[1]](#footnote-1) It is not the intention of this paper to explore the details of the products developments but merely to explain that the negative perception of Islamic finance comes from its current practice and not just the negative impacts of politics, the media, or Islamophobia.[[2]](#footnote-2)

**CURRENT TRENDS AND PERCEPTIONS IN ISLAMIC FINANCE**

The Islamic finance industry faces a number of external challenges to its reputation and outward perception both from consumers and practitioners within the industry and the general public. Especially after the attacks of September 11, 2001, the words “Islam” and “*shari’a*” have taken on negative connotations within the media and the Western consciousness. Similarly, after the global economic crisis of 2008, the term “finance” has come to be viewed more critically, both in the West and the rest of the world. The combination of the two leads to an even higher level of concern, especially as the outside media has often tended to equate Islamic finance or *shari’a­*-compliant economics to money laundering and terrorism financing. For non-Muslims especially, Islamic finance and economics can appear as a black box of unfamiliar terms, non-transparent processes, and an unclear purpose and expected outcome. Even the majority of Muslims are not knowledgeable about many of the basic tenets of Islamic economics; the average consumer might often confuse terms or concepts or not even be motivated to open an account or engage in an Islamic investment in the first place.

Beyond misconceptions about its methods and goals, both among Muslims and non-Muslims, the Islamic finance industry must confront negative perceptions from within the profession and academia of its attempts to stay true to the ideals of *shari’a*-compliant economics. Islamic finance differentiates itself from its conventional counterpart by the addition one word: “Islamic.” Without the moral guidance provided by Islam, Islamic finance cannot achieve its goals of social and environment responsibility and cannot differentiate itself from interest-based economics. Within the industry itself, there is a great deal of tension among Islamic economists who do not approve of the way the sector has been progressing. Scholars often criticize the products and services released by the industry for mimicking too closely their conventional counterparts. According to some economists, the Islamic nature of the financial services is being warped in order to make a profit. Some *shari’a* scholars in particular feel that the industry is not on the track it was intended to be when it began almost thirty years ago. For them, there is a need to reappraise the industry and put it back on a moral pathway. On the hand, practitioners explain that the industry is often under pressure from shareholders and consumers looking to make money in a relatively short period of time and pushing the industry for more goods and services.

According to previous scholarship, consumers most value the following factors when choosing an Islamic financial services provider: speed and efficiency of service, reputation and image of the institution, confidentiality, and convenience. In the case of Islamic banking in particular, consumer satisfaction with levels of customer service was found to be especially important as a certain level of knowledge is needed to explain and offer *shari’a*-compliant financial services. With regards to retail banking in particular, various studies have found that Islamic banks tend to deliver at a lower level than their conventional counterparts in terms of customer service and that consumer satisfaction levels are lower overall. However, according to a group of 100 Pakistani Islamic finance practitioners surveyed in a 2011 poll, religion and economics are the primary factors motivating consumers to chose an Islamic bank over a conventional bank, rather than the level of customer service they would receive. As the scholars conducting the survey observed, this perception could be due to ineffective marketing efforts on the part of Islamic banks and financial institutions rather than a reflection of real customer preference.[[3]](#footnote-3) A 2008 survey of some of the most prominent literature on perceptions of Islamic finance among consumers found that overall, most consumers were primarily motivated by religious reasons in using Islamic banking, but that the reputation of the bank, overall service quality, and return on investment were important factors as well.[[4]](#footnote-4)

Participants in a survey of 100 Malaysian financial services professionals expressed similar opinions. Most thought that the primary motivating factors for customers in choosing Islamic banking were a combination of religious and economic reasons. Furthermore, the participants in the Malaysian survey also agreed that Islamic banks and financial institutions in Malaysia were not engaging in enough marketing initiatives to promote their services. However, at the same time, the survey found that the most important factor for consumers in selecting a bank was the cost of goods and services, rather than religion per se. The survey went on to conclude from its collected data that Islamic financial institutions in Malaysia had not done enough to educated consumers and practitioners about Islamic banking and economics in the country.[[5]](#footnote-5) Respondents to a 2008 study of the Bangladeshi Islamic banking sector stated that religion was a very important factor for them in deciding whether or not to purchase Islamic banking services. However, they also added that other factors were important to them as well, including convenience, customer service, and profit. The report recommended that banks work to lower the cost of banking to appeal more to customers and that they also engage in more customer education programs.[[6]](#footnote-6) A study of Islamic and conventional banks in Pakistan found that consumers there most valued the economic benefits, financial position, interest rates, and global image and reputation in choosing a banking facility. Overall, customers of Islamic banks were less satisfied than those of conventional banks.[[7]](#footnote-7) In Bangladesh, a 2011 study of consumers of Islamic banking products and services found that many consumers saw no difference between the products and services offered by Islamic and conventional banks. Consumers suggested that Islamic banks aim to promoting Islamic values more, rather than simply trying to increase profit.[[8]](#footnote-8)

In an April 2010 a survey was conducted by Opalesque Islamic Finance Intelligence of both Islamic finance practitioners and non-practitioners, it was found that the Islamic finance industry faces a multi-faceted perception problem. The survey identified five areas in which the reputation of the industry was particularly vulnerable: transparency, comprehension, brand marketing, ethics and governance, and human capital. Regarding transparency, participants commented that the Islamic finance industry remains “shrouded in mystery,” as many of its products and services are not explained to the customer. Participants observed that there were a great deal of grey areas in the practice of Islamic finance and, in some cases, accused Islamic financial institutions of not complying with regulations. In terms of comprehension, the comments from the participants demonstrated a lack of understanding of the distinction between Islamic financial products and conventional finance products as well as a confusion relating to the difference between *shari’a* based and *shari’a* compliant services. Practitioners commented on the lack of a clearly written guidebook on Islamic finance that they could consult in their business dealings. With regards to brand marketing, participants observed that there was a lack of brand identity among *shari’a* compliant financial institutions as well as a lack of emphasis on the ethical or socially responsibly elements of Islamic finance in their marketing campaigns. Most participants commented that Islamic finance seemed too similar to conventional finance and that it was difficult for the consumer or practitioner to differentiate between the two. In terms of ethics and governance, the participants commented that while they see Islamic finance as having great potential for integrating Islamic values into the financial system, they felt that Islamic finance has failed to deliver on its stated goals. One particularly emphasized criticism was that *shari’a* scholars seemed to be in constant disagreement with one another, failing to provide strong leadership on the ethical elements of Islamic finance. Lastly, regarding human capital, participants explained that there is a clear lack of both trained personnel and opportunities for training within the field, especially in terms of cross-functional knowledge of *shari’a* compliance and product development. They explained that there should be more emphasis on training new graduates, as they are the future of the industry.[[9]](#footnote-9)

Islamic finance is increasingly adopting the forms of conventional finance, causing many to question whether Islamic banking is substantially different from *riba*-based economics, or if it simply differs in form. There are a few causes of this problem. Firstly, most Islamic financial institutions are run as *shari’a* compliant windows of conventional banks. In most cases, conventional banks open a *shari’a* compliant branch in order to tap into a growing market interested in Islamic finance and make a profit, rather than to realize the ethical or social goals of non-interest based finance. Thus, the experience of these practitioners in conventional finance colors their endeavors in Islamic finance, meaning that the *shari’a*-compliant instruments they develop tend to resemble their counterparts that are based on interest. Secondly, banks tend to make higher profits through trading activities rather than financing. Islamic finance, however, tends to shy away from trading, as the trend of securitization tends to draw banks away from relying on tangible assets. However, in order to remain competitive with conventional finance institutions, *shari’a*-compliant banks or branches have had to develop Islamic equivalents of securities, which tend to resemble their conventional counterparts. Thirdly, most new financial products tend to be based on conventional financing principles rather than Islamic ones. Thus, in a legal sense, financing tools tend to remain more abstractly tied to the real market.[[10]](#footnote-10)

According to Rushdi Siddiqui, the head of Islamic Finance at Thomson Reuters, many still associate Islamic finance with the funding of terrorism and gravely misunderstand the industry as a whole. He placed some of the blame on the industry itself, explaining that *shari’a* compliant financiers have done a poor job of explaining their products and services and how they differ from the tools of conventional finance. According to Siddiqui, there is a great need to educate the “man on the street” about the workings of Islamic finance in order to disperse the notion that Islamic finance is no more than “terrorism finance.” Siddiqui identified what he saw as the three main challenges facing the industry: “transparency, the search for information, and industry connectivity.” He specifically pointed to the inability to use the search engine Google to find useful and meaningful information on Islamic finance as a pressing challenge. He also explained that Islamic finance has a presence throughout the Muslim and non-Muslim world but that they are not connected in the way that conventional banks are, communicating electronically and engaging in financial transactions together.[[11]](#footnote-11)

A statistical study conducted by Nazim Ali and Abdur Rahman Syed in 2010 investigated the impact of the terrorist attacks of September 11, 2001 on the perception of Islamic finance, both in the West and among Islamic finance practitioners themselves. As authors S. Nazim Ali and Abdur Rahman Syed explained, in the wake of 9/11, “the distinctions between philanthropy, political activism, and support of militancy seemed to be lost when prefaced by the adjective ‘Islamic.’”[[12]](#footnote-12) Their study found that while there was a spike in the number of articles relating Islamic finance to terrorism directly after 9/11, the rate of appearance of such articles has since decreased to pre-9/11 levels. 9/11 has had a negative effect on the perception of Muslims in the United States. According to a 2006 joint ABC News/Washington Post poll, 46 percent of Americans expressed a negative opinion of Islam and Muslims. This percentage was nearly double what it had been immediately after the terrorist attacks of September 11th. Islam faces similarly negative statistics in Europe. In the United Kingdom, for example, 48 percent of respondents in a 2006 Pew Global Attitudes Poll found Muslims to be fanatical, compared to 32 percent that saw Muslims as violent. In both the United Kingdom and the United States, it was found that the influence of the media was very high on public perceptions of Islam and Muslims and that there was a positive correlation between paying close attention to television and supporting the restrictions of Muslims’ civil liberties. The number of articles related to or focused on Islamic finance spiked in the direct aftermath of the September 11th attacks, but after this sudden increase, the rate of growth return to the levels it had been experiencing over the past ten years. While many Western news articles observed that 9/11 had had a negative impact on the Islamic finance industry, a large number also stated that there had been positive developments in Islamic finance since the attacks. Islamic finance practitioners were evenly split on the question of whether 9/11 had had a negative impact on the field. Of those who did identify a negative effect, most cited the economic and political ramifications of the attacks as the main causes. Regardless, the majority of respondents agreed that there has been greater scrutiny on the industry since the attacks. While the majority of respondents did not report suffering harassment or receiving other sorts of negative attention, a sizable minority did state that they had experienced harassment. Most respondents also agreed that there were many steps Islamic financial institutions could take to improve the perception of the industry as a whole. Overall, practitioners concluded that 9/11 had brought increased scrutiny on the industry and this had lead to some misconceptions, it also “brought many opportunities, including opportunities for growth, and for increased awareness and understanding of Islamic finance.” In contrast, the majority of professionals in the Islamic finance media industry observe that 9/11 has had a negative impact on the field of Islamic finance, more because of political than economic consequences. However, most also agree that the scrutiny has lead to “increased awareness and understanding”[[13]](#footnote-13) as well as increased opportunities for the industry. In general, regulators and consumers have a more accurate perception of Islamic finance in the Middle East, Southeast Asia, and South Asia, while their counterparts in North America and Europe tend to be less educated on the industry.[[14]](#footnote-14)

In a study of Japanese perceptions of Islam and Muslims, authors Hirofumi Okai and Kiju Ishikawa were able to pinpoint some of the demographic factors that were shown to have an effect on the positive or negative perceptions native Japanese had of Muslims living in Japan. Their study demonstrated that women, people with higher levels of education, and people who interacted more with immigrants were more likely to have a positive perception of Islam and Muslims while age, occupation, and income had no significant impact.[[15]](#footnote-15) While specific to the Japanese context, these results could be taken into account by Islamic finance practitioners and scholars when thinking about how to improve the perception of Islam and *shari’a*-compliant economics worldwide. A 2003 examination of attitudes of Muslims living outside of Muslim-majority countries found that Muslims living in the United Kingdom would be willing to change their current financial practices if they had the opportunity to bank within an Islamic system.[[16]](#footnote-16)

**LOOKING AHEAD: HOW TO ADDRESS THE NEGATIVE PERCEPTIONS**

There are institutional and strategic changes that the Islamic finance industry can adopt to address the negative perceptions it faces. In order to improve the current perception, more dialogues are needed among those involved in the industry, including Islamic economists, *shari’a* scholars, practitioners, regulators, and legal professionals. Public lectures are needed to educate the media and general public, including both Muslims and non-Muslims. The role of academia is critical in engaging Islamic finance stakeholders in a healthy discourse on the subject of Islamic finance. Academic institutions such as Harvard University can engage in efforts to bring together all the actors to develop a better understanding and resolve the issues facing the industry. In particular, initiatives should focus on improving transparency and organization at a national and international level, so that Islamic financial institutions can better communicate with one other and become more involved with one another. Islamic finance industry leaders should make themselves available to discuss the issues openly and provide clear directions of the industry, removing any misunderstanding being created by Islamophobia or other issues. Issues of ethics and governance as well as social relevance must be addressed to bring about greater community participation. As evidenced by the views of Islamic finance practitioners and media professionals, increasing coverage in the global media, and the sustained growth of the industry worldwide, the outlook for future development of the industry is overwhelmingly positive.

In a 2010 survey conducted of practitioners and academics focused on finance in Pakistan, it was found that while the majority of respondents understood the theoretical basis of *shari’a*-compliant economics, many were skeptical about how Islamic finance operated in Pakistan. Many stated that they thought an interest-free economy was not possible and that Islamic banks should exist alongside conventional banks. The participants also offered a number of suggestions to expand and promote the Islamic banking industry. Among them, respondents suggested that the industry should launch an awareness campaign to counteract some of the misconceptions about *shari’a*-compliant financing. Through such a campaign, practitioners could include organize classes, conferences, seminars, road shows, and other events to educate consumers, students, and other practitioners. Another suggestion was to increase the number of auditors trained in *shari’a*-compliant finance through the development of human resources departments and talent acquisition. A third suggestion was for the government and other regulatory bodies in Pakistan specially to play a larger role in mandating the inclusion of Islamic banking within the financial services industry. Others suggested that banks and other financial institutions engage more in the practice of profit and loss sharing (PLS) as a viable Islamic financial product that has so far been under utilized in Pakistan. Finally, some also suggested that other players outside of academia and the industry ought to be involved in the transition to an Islamic economy, including businesspeople, regulators, members of civil society, clerics, and public intellectuals.[[17]](#footnote-17)

Currently, Islamic financial institutions depend on the conventional financial auditing structure in conjunction with the AAOIFI board (Accounting and Auditing Organization for Islamic Financial Institutions). However, the lack of a tailored structure for Islamic financial institutions means that auditing endeavors often lack the necessary framework to accurately assess Islamic banks and hold them accountable for their practices and transactions. Many facets of the current auditing system serve as a roadblock to high-level auditing, including the framework of the system, its scope, the level of qualification of its professionals, and the issue of independence. In terms of framework, many countries that operate primarily under a Western legal system suffer from the absence of clear guidelines when assessing or holding accountable a *shari’a* based financial system. With regards to scope, there are pressures from some quarters for a broader audit of Islamic finance that would encompass social and environmental concerns. However, the lack of expertise on *shari’a* law has led to a gap between the expectations of a complete *shari’a* audit and its realities. In terms of qualification, there are few professionals trained in both the study of *shari’a* law and its applications and financial accounting. Additionally, there is some debate over whether the two sets of skills should even be combined in one regulator, or whether the roles of *shari’a* scholar and auditor should remain separate. Lastly, especially if *shari’a* audits are to have a social or environment scope, the issue of the independence of the auditor takes on greater importance. A system of appropriate checks and balances ought to be put in place to ensure that Islamic banks and other financial institutions are in compliance with *shari’a*-standards and able to preserve the confidences of consumers and practitioners in Islamic finance as an industry.[[18]](#footnote-18)

A 2005 study conducted by a team of researchers on student knowledge of Islamic finance in the United Arab Emirates identified some important factors leading to misconceptions about Islamic finance among future consumers and practitioners. First, it found that the use of Arabic terms in Islamic finance served as an obstacle to many non-native speakers in understanding the mechanics of Islamic financial products and services. The study suggested allowing suppliers of Islamic financial services to rename Islamic products as they see fit, after the regulatory bodies have clearly and comprehensively defined the instruments in question. Secondly, the study also found that most consumers chose to purchase Islamic financial services for religious reasons, not because of the value or quality of the services themselves. According to the study, this type of decision-making process threatens the foundations of a free-market economy. The study recommended that Islamic financial institutions improve their marketing campaigns in order to better appeal to consumers. If the industry does not do this, the study argues that it will no longer be able to compete with conventional finance in growing its market share.[[19]](#footnote-19) A study of Islamic bank customers in Malaysia conducted in 2010 seconds these recommendations. The study found that Islamic banks and financial institutions could no longer depend solely on those customers who purchase Islamic financial services motivated by religious or pious considerations. Rather, the industry must strengthen its marketing initiatives to broaden consumer awareness of the Islamic banking sector as well as increase the quality level of its customer service to expand its market share.[[20]](#footnote-20)

A 2010 survey of Malaysian consumers found that while the majority of Muslims were attracted to Islamic banking for religious reasons, majority of non-Muslims were mainly attracted towards it for the products and services it offered. It also found that Muslims tend to have a strong understanding of Islamic finance while non-Muslims do not and that Muslims generally see no disadvantage with Islamic banking while non-Muslims on average do see a disadvantage. Non-Muslims overwhelmingly answered that Islamic banks had not done enough to change the attitudes of non-Muslims towards Islamic finance. Muslims agreed, but by a much smaller margin. In Malaysia in particular, 75 percent of Muslims saw a strong prospect for Islamic banking in Malaysia, while only 20 percent of non-Muslims agreed. In order to address some of the concerns, the authors of the study offered a few suggestions. First, they explained that providers of Islamic financial services need to market their products in the same way to both Muslims and non-Muslims. According to the authors, portraying Islamic finance as a religious obligation to Muslims and as a way to save money from non-Muslims gives the industry as a whole a bad reputation. Secondly, the authors recommended that practitioners and providers improve their communication with potential customers by introducing the Islamic financial services they sell in their local language rather than in Arabic. Lastly, the authors commented that Islamic banking professionals are known for offering low quality customer service. They recommended that the industry as a whole engage in a concerted effort to improve their human resources divisions and talent recruitment process.[[21]](#footnote-21) A 2008 examination of quality perceptions of Islamic banking in Malaysia found that while the majority of customers were satisfied with the quality of the industry, there was a need for improved customer service and more financial counseling to satisfy the customers.[[22]](#footnote-22) A 2009 paper on the perception of the service quality within the Islamic banking industry in Qatar found that customers rated Islamic banks highest in terms of the infrastructure of the bank, the convenience of banking, and their return on investment. The paper recommended that banks deliver a higher level of customer service in order to increase their market presence and profitability.[[23]](#footnote-23)

In a 2011 study of Nigerian youth perceptions of the future of Islamic finance in Nigeria, authors Ibrahim Moh Yussof and Mustafa Daud observed that the perceptions of Nigerian youth studying outside of the country have a strong impact on the development of the Islamic finance industry in their home country. Based on the results of their statistical study, they offered three recommendations to further the development of a *shari’a*-compliant economy in Nigeria. The first of these was the need to educate the Nigerian people more on the benefits of Islamic banking for country’s economy as a whole. Secondly, it recommended that the Central Bank of Nigeria (CBN) especially engage in such efforts, as it is optimally placed to encourage research and formulate policy. Lastly, the report encouraged Islamic finance institutions in Nigeria and the CBN in particular, to focus on improving the quality of training and talent selection within the industry as a whole and provide more opportunities for professional development.[[24]](#footnote-24)

**CONCLUSION**

This paper has pinpointed some of the most pressing issues confronting the perception of Islamic finance today. Firstly, studies have shown that the primary motivating factors for most Muslim customers in deciding between a conventional and an Islamic bank have been a combination of religious and economic reasons. On the other hand, non-Muslim customers tend to value most speed and efficiency of service, reputation and image of the institution, confidentiality, and convenience when choosing a bank or a financial institution. The Islamic finance industry has fallen short in meeting many of these expectations, for both Muslims and non-Muslims because of ineffective marketing efforts on the part of Islamic banks and financial institutions. Secondly, many still associate Islamic finance with the funding of terrorism and gravely misunderstand the industry as a whole. Lastly, Islamic finance is increasingly adopting the forms of conventional finance, causing many to question whether Islamic banking is substantially different from *riba*-based economics, or if it simply differs in form.

There are certain institutional and strategic changes that the Islamic finance industry can adopt to address the negative perceptions it faces. Firstly, research shows that the industry should launch an awareness campaign to counteract some of the misconceptions about *shari’a*-compliant financing. Some have also suggested that other players outside of academia and the industry should be involved in the transition to an Islamic economy, including businesspeople, regulators, members of civil society, clerics, and public intellectuals.

Additionally, regulators must strive to develop a tailored structure for Islamic financial institutions. Within the industry, practitioners should improve their marketing campaigns in order to better appeal to consumers, market their products in the same way to both Muslims and non-Muslims to create a clear message about Islamic finance, allow suppliers to rename Islamic products as they see fit in order to better appeal to consumers, and focus on improving the quality of training and talent selection within in the industry as a whole and provide greater opportunities for professional development.

Looking beyond the industry itself, academics and professionals should look to other fields, including faith based financing and social corporate responsibility as a model for its future development.[[25]](#footnote-25) More economists should be accommodated on *shari’a* boards, as many *shari’a* scholars lack an understanding of the macroeconomic forces impacting the industry. Additionally, more specialists from other industries, as well as more non-Muslims, should be involved in the academic and professional sides of the industry as their perspectives can be crucial in moving forward.

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