

On the regulation of the intersection between religion and the provision of financial services: Conversations with market actors within the global Islamic financial services sector

Abstract

The growth of Islamic finance in not only traditionally Islamic markets but also into more mainstream financial systems has raised several concerns about the development and robustness of its regulatory framework. Whilst there is a small but growing academic base of knowledge on Islamic financial regulation, our study differs from the extant literature by capturing market participant perspectives on these stylised debates on regulation in Islamic finance. In this regard, we bridge the gap within the academic literature through an exploration of how the specific types, processes and dimensions of Shariah financial regulation are developed and understood. The novelty of our findings lies in the divergence of market participants' views and that of the theoretical literature enabling us to extend the conceptual framework on Islamic financial regulation thus enhancing our understanding of the core focuses in the development of sustainable regulation in Islamic finance in both developing and developed economies.

Keywords: Islamic finance; Shariah supervisory boards; Shariah governance; Islamic financial regulation

1. Introduction

Post financial crisis the focus of much of the extant academic literature shifted from micro- to macroprudential regulatory frameworks (Gaganis, Lozano-Vivas, Papadimitri, & Pasiouras, 2020). However, Islamic finance finds itself in a unique position in being immune from this change in academic examination and given its relatively resilient performance over the financial crisis. Much of this robust performance has been attributed to both its institutional and systematic regulatory framework and there has been a growing base of academic literature exploring both micro- and macro prudential regulation within the Islamic financial system with examinations of firm-based Shariah governance as embodied by the Shariah supervisory board (SSB) (Narayan & Phan, 2019; Nawaz & Virk, 2019) and evaluations of systemic regulatory difference between Islamic financial hubs (Apaydin, 2018).

Islamic financial regulation is an important phenomenon given the nature of Islamic finance and its amalgam of theological and financial principles. The unique characteristics of Islamic finance – no interest (*riba*), prevention of uncertainty (*gharar*) and gambling (*maysir*) and the insistence of ‘real’ transactions (El-Gamal, 2005) - also generate concerns for development of the regulatory framework so as to ensure that there is minimal regulatory and theological arbitrage across Islamic financial systems (El-Hawary, Grais, & Iqbal, 2007; Kayed & Hassan, 2011). This creates a unique multi-layered regulatory setting with nuanced considerations for balancing religio-financial progress and development. Moreover, the current extant literature has provided some conceptual discourse into the notion of Islamic financial regulation with the issues of regulatory and theological arbitrage forming one of the main cornerstones of the debates. This stems from the fragmentation of the global Islamic financial system – major hubs in Asia, the Middle East and the UK in the West (Pollard & Samers, 2013). These differences in regulatory standards also include Shariah-based or Shariah-compliant regulatory standards and have raised concerns that the lack of regulatory uniformity across the Islamic financial system could hamper overall growth and development (Apaydin, 2018). However, the concept of Islamic financial regulation is, in reality, more complicated than what is suggested within the extant academic literature.

Firstly, whilst there is acknowledgement for the deficiencies within the regulatory framework that governs the various Islamic financial hubs much of this research is descriptive in nature and does not address, directly, regulation at both institutional and systemic level, *vis-à-vis*, the stakeholders of the Islamic financial system. Secondly, the literature provides

numerous recommendations towards addressing the issues of regulation (Farook & Farooq, 2013), but there is little empirical evidence verifying the implementation of these recommendations and their respective impacts. Finally, there is a lack of a wholistic consideration for Islamic financial regulation in terms of approaching this area of study as a nexus of both institutional and systemic factors. This richer view of Islamic financial regulation is important as the success of any financial system is also nested within its ability to ensure regulatory stability and as such explorations of this regulatory setting allow for the further disentanglement of complex issues. We generate this richer understanding through discourse with market actors allowing us to gain further insight and delineate and disentangle key concepts thus providing a more integrated framework of Islamic financial regulation.

Using an exploratory qualitative framework our incremental contributions are as follows. Firstly, we organize the current theoretical discourse and establish a conceptual framework that provides a comprehensive collective view of the extant academic knowledge on Islamic financial regulation and governance. This conceptual framework provides a collective overview of the existing debates on Islamic financial regulation allowing for a more structured exploration of this complex concept. Secondly, we synthesize the conceptual background with our findings from our conversations with market actors thus validating and extending the current academic literature by providing a more wholistic and complete framework with which to understand and disentangle Islamic financial regulation. This enhances the academic and practical knowledge on the core focuses in the development and creation of sustainable Islamic financial regulation.

Our contributions build on the empirical findings of papers such as Apaydin (2018) on issues such regulatory harmonisation and Islamic central banking facilities. Our findings show that while there is consensus in appreciating the quality and quantity of regulatory development, the market perspective is not for complete harmonisation of regulatory standards but rather, an adequate regulatory foundation to foster financial innovation and to ensure a degree of uniform protection for market participants within the varying Islamic financial hubs. The findings from this latter perspective also highlight the inherent difficulties with the establishment of these foundational regulatory requirements due to the dualistic nature of the spectrum of the Islamic financial market participants - the needs of the Islamic financial market and the conventional financial market participant. Our results enhance the extent understanding of the focuses in developing sustainable regulation within the Islamic financial system thus fostering the

overarching theological and social aim of Islam – *maqasid al-Shariah*. If we adopt these findings through the incorporation of the perspectives of market actors with the extant theoretical literature we are able to better explain Islamic financial regulation.

The paper is set out as follows. We establish our thematic framework in section two via an extensive review of the extant academic literature on Islamic financial regulation. Section three and four, provide a description of the adopted qualitative methodology and data analysis processes. In sections five and six, we present our findings and discussions from the interview analysis. We conclude with section seven and highlight our contributions, limitations of study and proposals of avenues of further research.

2. The Islamic finance system

The growth of the Islamic financial system has been one of its hallmarks and its market capitalisation currently stands at \$2.05trillion dollars (Islamic Financial Services Board, 2019b). With this growth the Islamic financial system has had to contend with the challenges of expansion, more specifically, the increasing criticisms of the regulatory framework (F. Khan, 2010; I. Khan, 2010) as it grows into more mainstream financial markets (see Abedifar, Ebrahim, Molyneux, and Tarazi (2015) for a succinct comparison of Islamic and conventional finance) and the emphasis on advancement the regulatory standards to accommodate this situation (Fang & Foucart, 2014). For brevity we will not go into a review of the supply- and demand-side arguments for the growth of Islamic finance but rather will provide a brief sketch of the distribution of Islamic financial services. Using a proprietary dataset created utilising the FT Banker Database, we are able to decompose this into systemic distribution in terms of sovereign participation in Islamic finance based on the number of domiciled and publicly traded Islamic financial institutions (IFIs). Table 1 below provides a breakdown of the number of IFIs based on region with the MENA, South East Asian and South Asian regions accounting for 95% of all IFIs. Nations within the ‘other’ classification include the UK, Australia, Switzerland and Nigeria. In total we have at least 39 nations with, at least, one publicly traded IFI.

INSERT TABLE 1 HERE

Additionally, we are also able to provide a firm-based breakdown of the types of institutions and the IFI mode of operation. This provides a more complete picture of the global

Islamic financial system given the differences in religio-financial paradigm. We discuss this further in the following section. From Panel A in Table 1 above, we observe a relatively balance distribution of banking and non-banking IFIs with non-banking IFIs comprising of Islamic insurance providers and investment funds. From Panel B in Table 1, the skew is more towards a Shariah-based mode of operation whereby stricter rules of Shariah are implemented in the operation of the financial system. Given this brief overview of the global Islamic financial system, we proceed to provide a systemic review of the extant academic literature in the following sections.

2.1. Institutional Shariah governance

The literature addresses the notion of regulation in Islamic finance from two perspectives – institutional and industry (systemic). At an institutional level, the job of assessing the validity of Shariah-based and Shariah-compliant financial products is the responsibility of in-house religious advisors, collectively known as the Shariah-supervisory Board (Bassens, Derudder, & Witlox, 2010, 2011). The composition of these SSBs consists of a mix of religious scholars and financial practitioners whose job is to debate both the religious and financial underpinnings of new services and/or products (Al Mannai & Ahmed, 2019). The composition and operation of these SSBs raises several issues of a regulatory nature 1) independence 2) disclosure 3) confidentiality 4) competence and 5) consistency (Islamic Financial Services Board, 2009).

Firstly, the issues of independence of SSBs have been given a more colloquial nomenclature in the form of ‘Fatwa-shopping’ or ‘Fatwa repositioning’, whereby financial institutions seek out specific Shariah scholars based upon their ‘leniency’ in interpreting Shariah (Azmat, Skully, & Brown, 2014; Oseni, Ahmad, & Hassan, 2016; Ullah, Harwood, & Jamali, 2018). El-Gamal (2005) noted the increasing frequency of similar Islamic scholars on different SSBs and questioned the validity of these judgements based on robustness of Shariah-interpretation. Moreover using agency theory as a lens, El-Gamal (2005)suggested that if Shariah scholars were hired upon a reputation for being lenient, this created fundamental issues with the quality of the religious judgements and the resulting financial products and services. This situation is not aided by the inherent opaqueness of IFIs and there is a lack of disclosure of SSB composition and the Shariah decision-making process (Bhatti & Bhatti, 2010; Platonova, Asutay, Dixon, & Mohammad, 2018). The implications of both recruiting specific scholars and a lack of transparency is a further detriment to market participant confidence (Khan, 2007; Riaz, Burton, & Monk, 2017; Safieddine, 2009).

Secondly, having similar religious scholars on the SSBs of different IFIs raises concerns about the confidentiality of these religious judgements with discussions focusing on intellectual property rights and conflicts of interests (Al Mannai & Ahmed, 2019). Thirdly, there have also been calls for the development of an environment that bolsters the development of human capital (Hamza, 2013; Mejia, Aljabrin, Awad, Norat, & Son, 2014; Nawaz, 2017). Recent studies, Farook and Farooq (2013) and Najeeb and Ibrahim (2014), advocate the development of a central accreditation process for new Shariah scholars and auditors. Potentially, establishing a much wider base of knowledge and human capital would invariably alleviate market stresses on the small pool of existing Shariah scholars as well as address the conflict of interest from having similar SSB members on the SSBs of varying IFIs.

The final concern about SSBs relates to the level of consistency of religious decisions given the differences in Shariah interpretation of the various schools of Islamic thought (Khuri, 2006). Consistency in this context includes both consistency of Shariah judgements and consistency in adoption of Shariah rules and regulation. Whilst there are core commonalities in religious ideology between the various schools of Islamic thought, religious decisions are determined by the interpretation of an individual (or group) of scholar(s) within SSBs. Given the, potentially, subtle but nuanced differences in interpretation of the various schools of Islamic thought there is the potential for diverse judgements on similar issues (Apaydin, 2018).

2.2. The fragmentation of the Islamic financial system

Any review of the extant academic literature on systemic Islamic financial regulation has to begin with an appreciation of the variance in banking paradigms across Islamic financial systems given below:

- i) Wholly Islamic financial systems or Shariah-based financial systems (e.g. Iran)
- ii) Parallel financial systems offering Islamic and conventional finance (e.g. Malaysia and Saudi Arabia)
- iii) Shariah-compliant financial systems, which are conventional financial systems that provide Islamic financial products and services via a Shariah screening process, also known as Shariah-windows (e.g. U.K.)

Shariah-based financial systems adopt a system of regulation whereby the laws and principles of Islam are applied in their strictest form without exception and flexibility (Asutay,

2012). Both parallel and Shariah-compliant financial systems more commonly adopt a less strict mode of religious financial regulation by filtering out Islamic financial products and services through a set of Shariah rules with religious exceptions. Furthermore, these different systemic frameworks are fragmented along geographical (Apaydin, 2018; Bassens *et al.*, 2010; Pollard & Samers, 2013) and historical legacies (Apaydin, 2018), borne out of variances in the interpretation of fundamental Islam (see Khuri (2006) for an overview of core Islamic schools of thought). This issue can also be sub-divided into i) Shariah-based and ii) Shariah-compliant diversity. Examining Shariah-based diversity, there is the degree of difference in religious interpretation across the schools of Islamic thought (Khuri, 2006). For example, the dominant Shia and Sunni sects who possess nuanced interpretations of Islamic law. The outcome of this diversity in Shariah interpretation is an increased potential for market inefficiencies such as incompatibility of financial instruments with similar payoffs across markets (Zakariyah, 2012). Azmat *et al.* (2014) have also shown that inconsistencies in screening processes hamper the structuring process of Islamic financial instruments. On the other hand, there are also variances in the Shariah-compliant screening process adopted by conventional financial institutions seeking to offer Islamic financial services and products (Ashraf & Khawaja, 2016; Ho, 2015) provide a succinct collection of the details of the Shariah-screening criteria adopted by major conventional equity exchanges and illustrate distinct differences in the Shariah-compliant screening criteria. This highlights one of the core issues, in that having both Shariah-based and Shariah-compliant interpretations of Islam, this creates duality within Islamic financial regulation and what is Shariah-compliant may not necessarily be accepted within Shariah-based systems and vice versa (F. Khan, 2010; I. Khan, 2010; Khatkhatay & Nisar, 2018)

2.3. Lack of development on the provision of core Islamic financial services

Another dimension of this argument of systemic Islamic financial regulation relates to the underdeveloped nature of the Islamic financial system from a core financial perspective (recent guideline literature from the IFSB indicates that these regulatory issues are being considered – see IFSB 10 and 14). This lack of or slow development has resulted in numerous deficiencies in terms of – 1) banking regulation, 2) market liquidity and 3) the establishment of a central bank (CB) and/or lender of last resort (LOLR) (Dar & Azami, 2010; Hassan, Khan, & Paltrinieri, 2019; Song & Oosthuizen, 2015)

First, from a banking regulation and capital adequacy perspective, IFIs are characteristically less liquid than their conventional financial counterparts (Ariss & Saredine,

2007; Daher, Masih, & Ibrahim, 2015) thus placing increased emphasis on capital management. Additionally, there remains difficulties in assessing and measuring the types of risks faced by IFIs (Ahmed & Farooq, 2018; Msatfa, 2012; Warninda, Ekaputra, & Rokhim, 2019; Zins & Weill, 2017). Whilst the Islamic financial system has implemented the principles established in Basel I, II and III (see IFSB standard 15) to ensure IFI robustness, the academic literature is critical of the legal protection afforded to market participants. The studies (Muneeza & Hassan, 2014; Oseni, 2013; Oseni & Hassan, 2015) have suggested a need to streamline the legal protection afforded to market participants in both Shariah-based and Shariah-compliant markets. Mejia *et al.* (2014) provides a succinct review of the adaptability of conventional legal systems in Shariah-compliant financial systems in accommodating IFI requirements and further studies (Monger & Rawashdeh, 2008; Oseni, 2013; Sarea & Hanefah, 2013) have highlighted the continual development of these processes via the two main Islamic financial bodies – AAOIFI and IFSB.

Secondly, given these developments in banking regulation, there is room for the advancement of financial products and services to address any issues of liquidity in the Islamic market (Hassan *et al.*, 2019; Volk & Pudenko, 2010). Studies, such as Ahmad and Hassan (2007), into the liquidity of the Islamic financial markets are inconclusive and much of the literature focuses on specific Islamic financial systems rather than the industry as a whole. Any developments on establishing a uniform Islamic regulatory foundation, it is argued, will greatly aid financial innovation, in terms of financial product structures, in turn addressing the liquidity within the Islamic financial markets (Abdul-Rahman, Latif, Muda, & Abdullah, 2014; Daher *et al.*, 2015). The suggestion here is that the illiquidity of the Islamic financial markets due to difficulties with financial innovation is an outcome of a lack of regulatory uniformity (Zakariyah, 2012).

2.4. Central regulatory and monetary authorities

Finally, studies such as Hassan, Benito, and Faisal (2013) suggests that a LOLR will aid the development of a uniform regulatory standard and address the issues of liquidity across the Islamic financial systems. The lack of a formal framework and developed culture for risk management has meant that there is increased importance placed upon establishing a LOLR (Grais & Rajhi, 2015). Hassan *et al.* (2013) provide an overview of the financing practices of Islamic banks in host countries that further contributes towards the arguments in favour of global Islamic financial regulation and the requirement for a LOLR. Given the indication for

the need for a LOLR, however, there is a lack of discourse about whom should undertake this role. Solé (2007) suggests that this role should be undertaken by a sovereign central bank whilst Siddiqui (2008) puts forward a central regulatory body within this role of LOLR but also highlights that this could lead to questions about a conflict of interests. Additionally, Chatta and Abdul Halim (2014) provide a salient theological discussion on the inception and viability of an Islamic LOLR and it is possible to draw inference from conventional finance for a model of a centralised LOLR – the European Central Bank (ECB) (Obstfeld, 2009).

2.5. Fintech and Islamic finance

Finally, we highlight ‘fintech’ in our theoretical framework within a broken diamond as, whilst it does raise an increasingly pertinent regulatory question in terms of financial regulation for further study, there is still significantly limited conceptualisations of this element within the existing academic and professional literature. Of the few academic studies, the focus is on conceptualising and contextualising the opportunities of fintech from an Islamic financial perspective and its integration into the sustainability framework of Shariah (Hasan, Hassan, & Aliyu, 2020; Saba, Kouser, & Chaudhry, 2019). Additionally, whilst there is a recognition of the inception of Islamic fintech from central bodies such as the IFSB there are no official regulatory standards on fintech in Islamic finance. To date, the IFSB has released a single technical note indicating the modality of fintech on financial inclusion (Islamic Financial Services Board, 2019c). Given its *a priori* and *a posteriori* nebulous conceptualisation within the existing academic and practical literature, its inclusion within our framework is more to highlight its importance as an element of further study.

Given the conceptual insights established within the existing literature, there persists a need for research exploring we establish a conceptual framework of Islamic financial regulation and for a breakdown of the core thematic issues, see Figure 1 below and also Table 1 in Appendix A. It is the aim of this study to extend the extant conceptual studies to highlight the situation ‘on the ground’ thus providing a synthesized and more complete framework for Islamic financial regulation. The proceeding section provides an explanation of the underlying methods applied in addressing the research questions.

INSERT FIGURE 1 HERE

3. Methods

This study adopts a qualitative research approach to achieve deeper insights from market participants on issues of Islamic financial regulation. It would be pertinent to explore if the issues of regulation are, hitherto, as much of a hindrance to the operations of the Islamic financial system as posited within the existing literature. This would enable a reconciliation of market perspectives and theoretical literature on regulation in Islamic finance (Creswell & Creswell, 2018).

Using an interview-based approach, this study will adopt a framework-synthesis methodology by designing a framework for analysis of existing literature and which is explored via a method of quote-analysis with procedures drawn from Barnett-Page and Thomas (2009) and Miles, Huberman, and Saldana (2019). Whilst, framework synthesis deviates from the conventional qualitative research approaches in being more deductive, the development of a *priori* framework from the literature provides robustness to the interview's themes and its analysis. The framework derived from the existing literature is divided into several core themes, which form the basis of our interview questions and subsequent analysis.

Semi-structured interviews (Horton, Macve, & Struyven, 2004) were with individuals who possess extensive academic and/or practical knowledge in the subject matter. The interviews are conducted via telephone or in person, based on interviewee availability, and last no more than sixty minutes. Candidates are identified via numerous media sources, including journal authorships, institutional profiles (both academic and professional) and conference proceedings.

Firstly, with regards to identifying the academics and academic-practitioners, we considered individuals who had at least five publications with an Islamic finance focus within national, international, and world-renowned journals. We consider a period of, at least 10-years between 2010-2020. Given this profile we reviewed nationally-, internationally-, and world-renowned journals within the fields of, but not limited to, Accounting, Finance, Economics, Ethics-CSR-Management, Public Sector, Social Sciences, and Organizational Studies. We were able to identify several publications outlets that were relatively active within the field of Islamic banking and finance, for instance Journal of Corporate Finance, Journal of Economic Behavior and Organization, Journal of Banking and Finance, and Regulation and Governance. However, we were also mindful of the burgeoning nature of Islamic financial studies and

included, within our focus, targeted, specialist journals such as the International Journal of Middle Eastern Finance and Management, Journal of Islamic Economics, Banking and Finance, Journal of Islamic Accounting and Business Research, and Journal of Islamic Business & Management. Journals with an emerging market focus were also considered, for instance, Research in International Business and Finance, Emerging Markets Review, Global Finance Journal, and Pacific-Basin Finance Journal. Additionally, we also perused work produced by the Islamic Research and Training Institute (IRTI), and the Islamic Development Bank as national centres promoting Islamic academic development and research. We were also able to gain access to the Durham Islamic Finance Summer School proceedings as well as a Global Islamic Finance Report from which we were able to identify numerous potential interview candidates.

For the identification of the practitioners, we considered individuals within senior/top management teams, who had been in their posts for at least three years (Reguera-Alvarado & Bravo, 2017). We begin by firstly reviewing the organizational structure of the two-core central regulatory bodies in Islamic finance, namely the Islamic Financial Services Board (IFSB) and the Accounting and Auditing Organization for Islamic Finance Institutions (AAOIFI). Secondly, we proceeded to review the organizational structure of member institutions of both central regulatory bodies to discern individuals whose vocational responsibilities involve firm policy implementation. A review of the member institutions of both the IFSB and AAOIFI also included sovereign monetary authorities such as the Saudi Arabian Monetary Authority (SAMA), Bank Negara Malaysia, Qatar Central Bank, Central Bank of Bahrain, State Bank of Pakistan, and Bank Indonesia.

Our sample size is driven by data saturation of views, which is described in the proceeding section and to reduce interviewer bias, pilots were undertaken with the purpose of refining interviewing technique, questioning sequence and question coverage.

3.1. Sampling and Data Collection

This study adopted a purposive sampling approach using the snowballing technique to select participants who possess the relevant knowledge and capacity to enhance the theory development. The nuanced nature of the discussions required an identification of individuals who possessed a relatively robust understanding of the operation of the Islamic financial system and this naturally led us to the following typification of interviewee groupings - ‘Academic’,

‘Academic-practitioner’ and ‘Practitioner’. Invariably, perspectives from both academics and professionals would provide a richer view on the subject area, however, in order to ensure psychological homogeneity across the academic or practitioner groups, we have employed the use of a bridging group – ‘Academic-practitioner’ (Robinson, 2014). Moreover, there have been criticisms of the contribution of academics within interview-based studies but we justify our inclusion on the basis of recent research (Francis, Hasan, & Wu, 2015; Mclean & Pontiff, 2016) highlighting the influence of academia on the financial system.

Interview candidate profiles are given in Table 2, Appendix B, and are proportionally representative of the breakdown of global distribution of IFIs given in Section 2 above. In order to ensure relevance of perspectives in relation to the subject of study, selection criteria were established for each of the interview groups (see Table 2 below). This has yielded interviews with practitioners who hold substantial positions within core regulatory bodies such as the IFSB and AAOIFI, along with highly published academics within the field of Islamic banking and finance. Additionally, we have to make clear that whilst we have stratified along the academic and professional lines, the profile of our interviewees also indicate that they embody the wider stakeholders including, but not limited to, investors, religious leaders and regulatory entities, thus providing an adequate representation and capture of market actors within the Islamic financial system.

INSERT TABLE 2 HERE

The sampling process is driven by data saturation (Glaser & Strauss, 1967) and we have adapted the methodology developed in Francis *et al.* (2010) to establish a stopping point. This is given below:

- i. Initial three interviews for reference group
- ii. Another three interviews added – Three ‘new’ interviews evaluated against core themes.
- iii. This will continue to happen until interview analysis demonstrates that there are no changes to reference to core nodal themes, i.e. saturation

The academic literature is relatively inconclusive on saturation points with average interview samples ranging from six to fifty candidates (Mason, 2010; Saunders & Townsend,

2016). We follow Saunders and Townsend (2018) in relation to the number of interviews and guide our methodological explanations accordingly in highlighting the selection of interview candidates in order to meet our research objective and in considering the appropriateness of justifying the number of research participants through the acquisition of relevant expert opinion. Given the processes identified above a total of seventeen interviews were conducted with a good spread of quality candidates – four academics, four academic-practitioners and nine practitioners. Saturation was reached after no new information emerged from the 11th to the 17th participant (Guest, Bunce, & Johnson, 2006; Mason, 2010; Ritchie, Lewis, & Elam, 2003). The following section explains the data analysis processes for this study.

4. Data Analysis

We engage in two stages of validity testing. Firstly, the interviews were transcribed and reviewed independently by the authors to reaffirm contextualisation of issues for consistency and reliability. Transcripts were sent back to the respective interviewees to certify that their views were adequately captured in the transcription process and any discrepancies were adjusted. Secondly, upon completion of the quote analysis, the contextualisation is then once again reviewed by interviewee candidates.

The study utilised a ‘quote-research’ method of analysis established in Miles *et al.* (2014). Both, the procedures from framework synthesis and quote-research alleviate the concerns about quote-analysis as a single platform for qualitative exploration. The process-based method to bolster the ‘quote-analysis’ used is detailed below:

- i) Data Reduction: development of underlying qualitative themes - see Figure 1, Section 2.5 and Table 1, Appendix A (Erlandson, Harris, Skipper, & Allen, 1993; Miles *et al.*, 2019)
- ii) Data display – we then sought meaning amongst collected interviews. Once interviews were transcribed, themes across each interview were classed into their respective nodes.
- iii) Conclusion – we compared, contrasted and triangulated the collected interviews and initial underlying themes and linked them to the overall aim of the study.

To strengthen validity of the quote-analysis, protocols adopted for this study required independent coding of the interview transcripts into the thematic nodes. A consensus-based approach was adopted whereby commonalities across the independent quote coding exercises were compiled to form the core findings of this study (Maxwell, 1992; Seale, 1999). This consensus-based approach was also used to further validate saturation of views across the interview sample. The subsequent section details the core findings from the quote-analysis.

5. Findings

In this section, we highlight the core findings from the interviews. The section is organised in light of our theoretical framework – institutional and systematic regulation respectively and to provide context, core themes are accompanied by quotes from the interviews.

5.1. Microprudential supervision - Shariah-supervisory Boards

The perspectives from the interviews on SSBs are substantially polarised from the literature. Two core common themes existed across the interviews – SSB composition and decision-making. Firstly, interviewees highlighted that the concerns about SSB composition are rapidly diminishing across the global Islamic financial system. As Islamic finance has developed and grown, the base of human capital has been expanding and this has led to the continual diminishment of issues such as composition of SSBs and the consistency of their decision-making. Fundamentally, the rapidly expanding base of Shariah-scholars and industry expertise has greatly addressed the many issues of institutional regulation and governance and should continue to be an area of focus going forward.

“...It is a double-digit annual growth and it is very difficult and very hard for the industry to manage this growth by providing the resources that will be required including human and financial resources... this is something that you cannot develop overnight...” – *practitioner 1*

Secondly, our findings highlight that interviewees questioned the notion of transparency within the context of SSB decision-making. Whilst the literature indicates a desire for greater transparency concerning decision-making processes, our findings suggested a contrarian view of this in that there is first a need to define transparency. This notion of ‘complete transparency’ as suggested within the literature is relatively idealistic and the interviewees highlighted a need

for a realistic perspective on transparency. The interviewees indicated that conventional financial institutions and systems possessed a certain degree of opaqueness themselves and that this was predominately borne out of competitive market conditions.

“...they put broad details of what goes on but they don't put details of the structures they are recommending to individual clients as that would be a breach of confidentiality... So, like any banking contract, it is not in the public domain...” – *academic 3*

“...Islamic banks have regulatory obligations in terms of monetary reporting so they have this sort of obligation and the extra obligation from a Sharia compliance perspective that they have to report...” – *academic-practitioner 2*

“Transparency is not a major issue. In fact, some argue that Islamic financing can be more transparent than conventional financing...” – *practitioner 8*

This finding does raise several questions about the coverage of existing research on the concept of transparency within SSBs. In the following sections we progress on to our findings about interview precepts on systemic Islamic financial regulation

5.2. Islamic Finance as a viable alternative financial system

Participants from all three interviewee groups were quick to illustrate that the adoption of a religion-financial framework would result in increased risk for the Islamic financial system. The views of the interviewees add to the existing literature by indicating that individuals transitioning or engaging in Islamic finance from conventional financial systems have to understand the differing structures of certain types of financial products as well as financial risks.

“...it's a lack of understanding of the principles and a perception that it's essentially a religious practice and if it's seen on that basis, they probably feel that it is not accessible to non-Muslim users ...” – *academic 4*

“...Islamic finance has got its own particular risk. Obviously, there is potentially more market risk for the Islamic financing facilities than there is conventional banking because Islamic banks can invest directly and take on ownership risk.”

– *academic-practitioner 4*

“...this is an alternative financial system and you have to understand the nature of risk involved in this so do not think that it is completely risk free, do not think that it is immune to any shock or any hazard.” – *practitioner 1*

“Higher communication between non-Islamic finance professionals and Islamic finance professionals. To be able to bridge the gap and pave way for better transparency and regulations. To have credible Shariah experts leading the industry as there are only a small number of qualified professionals with the equipped skillset.” – **practitioner 9**

In addition to this precept, there was little to no capture of the issues of being viewed as an alternative financial system as suggested within the theoretical literature. Facets such as the level of consumer protection did not seem to feature within the interviewee precepts. Interviewee concerns were predominately about ensuring that new market entrants understand the fundamental differences between Islamic and conventional finance, we progress on to present the findings on uniformity, which, if not address could potentially result in a relatively nebulous interpretation of Islamic financial principles.

5.3. Fundamental Regulatory Framework

The context of uniformity splices arguments relating to the homogeneity of Shariah-compliant criteria and the standardisation of Islamic financial systems. Examining the interview transcripts in relation to homogeneity, there is little reference by interview candidates on this issue. Concerning standardisation, the interview findings largely confirmed the theoretical literature in indicating that this had to be one of the core focuses of the Islamic financial system going forward. The arguments presented by the interviewees were very similar to that of the theoretical literature in highlighting that the nuanced regional interpretations of Shariah created barriers towards harmonisation. Additionally, these differences further exacerbated problems of market development in terms of breadth – financial innovation – and depth – the number of

cross-market participants. The interviews indicated that there is a need to develop a salient fundamental regulatory framework that governs the global Islamic financial system.

“... you have differences on what is allowed in some markets and what isn’t. You have conflict between the various schools of interpretation. If you don’t have harmonisation, you don’t have products that can be traded between markets, there’s a lack of liquidity, so keeping things opaque and having separate rooms, separate schools and separate interpretation is not going to lead to a deep market” – *academic 4*

“...the inconsistency could lead to complications in implementation and a disadvantage to the Financial Institution in cases of legal dispute...” – *practitioner 2*

“...there is no uniformity between those hubs, every bank is different at the operational level...there will be a problem with the compliance, there will be a problem because there is a lot of rules and regulations that are different...” – *practitioner 3*

An interesting facet of the findings from this dimension of the interviews related to the degree of uniformity. To the best of our knowledge, the degree of uniformity has not been addressed within the academic literature and these findings potentially extend the theoretical literature. Whilst there are calls for further development of a fundamental regulatory framework, the interviewees indicated that complete harmonisation was an impossible prospect. The interviews also highlight that market participants are relatively favourable of the efforts of current regulatory bodies such as AAOIFI and the IFSB in continually streamlining the fundamental regulatory framework of the Islamic financial system. It should be noted as well that there is little criticism of central regulatory bodies and the interviewees acknowledged the continual contributions of these bodies towards the development of the Islamic financial system. Essentially, there is acceptance for the benefits of a unified, fundamental regulatory framework but there were no clear advocates to complete uniformity.

“...but you don't want (complete) standardisation because that will obviously preclude innovation – putting everything in sort of a strait jacket, then there is not

much scope for devising new methods of doing things...” – *academic-practitioner*

3

“...most successful global brands have adopted the approach of customizing to local scenarios such as HSBC with the slogan “The world’s local bank” ...” – *practitioner 5*

These suggestions of complete uniformity stifling product design and financial innovation lead on to the next theme that evaluates the market participants’ view on the development of new instruments within the Islamic financial system.

5.4. Financial Innovation

Concerning the development of new instruments, our findings largely confirm and extend the academic literature. The interviewees highlighted the mimicry by Islamic financial instruments of their conventional counterparts as source of substantial concern. Fundamentally, the arguments put forward emphasised that continual mimicry of conventional financial instruments could lead to a loss of credibility for the Islamic financial system. There is a need for further development of financial instruments under a Shariah-framework and potentially meeting the requirements of market participants within the industry. There is substantial room for financial innovation along this front.

“...look this is just too complex. I can’t see who’s doing what and I don’t see where the risk is really held from and so I’m not putting my client’s money into it...” – *academic 1*

“...Islamic banks tried develop a market tool with the BBA (British Bankers Association) - Islamic LIBOR...it’s very premature but you’ll find contributors are very low and you will find the same people who contribute to Islamic LIBOR are benchmarking according to conventional LIBOR which is a contradiction...” – *academic-practitioner 1*

“...there is a strong tendency of mimicking conventional products to make them Shariah-compliant and to make them Islamic...very risky process because first of

all it kills the objectivity of Islamic finance so it is not really an alternative. It is just a dressing up of something else...” – *practitioner 1*

The findings extend the existing academic-based as this is not entirely captured within the literature, where the arguments relate predominately to the development Islamic financial innovation in general, *inter alia*, the need for a LOLR.

5.5. Central Banking

There are two core findings from the interviews in relation to the LOLR. Firstly, the interviews confirm the academic literature in that there is desire for the Islamic financial system to establish some form of central banking entity within the industry. The arguments put forward reiterate once again the nuances of regional interpretation of Shariah but further these discussions in relation to the concepts of central banks. Fundamentally, there is a need review the role of an Islamic central bank in the context these regional differences in interpretation. If there is a desire to establish some form of fundamental regulatory framework where an Islamic central bank can exist, then there is a need to think about how this Islamic central bank can, potentially, afford pastoral guidance on Shariah whilst at the same time fulfil its role as central financial entity within the financial system.

“...we definitely need a lender of last resort but this is where the central banks have to be considered and they have to start moving towards a position where they will be able to act as the lender of last resort for Islamic institutions in an Islamic way”
– *practitioner 1*

“...I think it’s very difficult to think about Islamic central banks in the abstract without thinking about which territories and legal contexts they’re actually going to be plot down in and how they’ve always got this issue of adapting to what rules are already in place ... “– *academic 2*

“There is still no established international body that can play such a role. The lender of last resort concept, due to restrictive application of Islamic finance, is very much dependent on the individually regulatory body... much needs to be reviewed into spread the source of funds to support emergency borrowing if Islamic financing is to expand rapidly...” – *practitioner 7*

More interestingly, the interviewees suggest two potential frameworks for the accommodation of this central bank and LOLR – a mega Islamic bank and sovereign central banks. The suggestion put forward from the interviews was that sovereign central banks would be the best positioned to fulfil this role for the Islamic financial system. Essentially, sovereign central banks would have to evolve their roles, marginally, to accommodate the Islamic financial system. Alternatively, the mega Islamic bank framework would see an additional layer to the financial hierarchy in having a supra-entity oversee conventional central banks and maintain the religious integrity of the Islamic financial system. Both suggestions would involve conventional financial markets and sovereign central banks making provisions to provide macro-prudential regulation, establish and maintain market liquidity in-line with Shariah financial rules.

“...I mean central banks do but the lender of last resort is lending to a system, it’s the banking system as a whole. If there’s a generalised systemic run, okay I mean and if there’s a run it seems to me that, you know, Islamic banks could fail their customers...” – *academic 4*

“...well I think we need a mega Islamic bank. It’s either through the Islamic Development Bank (IDB) or through any other shareholding structure, we need a mega Islamic bank that oversees the whole industry and we need to try to achieve this sort of regional standardisation.” – *academic-practitioner 1*

“...The Malaysian central bank – Bank Negara Malaysia provides a viable outlet for funds for Islamic financial institutions. If I am not mistaken in the UK, with HSBC’s Islamic banking branch and Lloyds Islamic finance branch they have the Bank of England as a lender of last resort and in terms of regulation they are still governed by UK law.” – *practitioner 4*

We have presented the findings from our quote analysis above. In the following section we proceed to discuss and provide a cogent narrative conceptualising the synthesis of our theoretical and empirical findings thus providing an integrated contextualisation of Islamic financial regulation.

6. Discussions

In this section, we reconcile and synthesize the theoretical narratives from the literature and our findings from our interview analysis thus allowing us to develop a comprehensive empirical framework elucidating Islamic financial regulation.

6.1. Nesting institutional regulation within systemic regulation

For continuity, we begin with a conceptualisation of institutional regulation focusing on the role and characterisation of the SSB. We observe from our empirical interview analysis that much of the identified theoretical issues in terms of SSB independence (Azmat *et al.*, 2014; Oseni *et al.*, 2016), composition (Al Mannai & Ahmed, 2019) and confidentiality (Bhatti & Bhatti, 2010; Platonova *et al.*, 2018) are greatly diminished with only continual development of competence (Farook & Farooq, 2013; Najeeb & Ibrahim, 2014) and in turn consistency (Ullah *et al.*, 2018) of Shariah judgements remaining. There is consensus that the development of the human capital in terms of competence through the offering of accredited qualifications would address the knowledge base of Shariah scholars. These discussions logically progress into the consistency debate in that that provision of accredited qualifications by central bodies would also further ensure a consistency knowledge base vis-à-vis interpretation of Shariah law across the Islamic financial system. Moreover, on the issue of transparency, the empirical findings raises the question as to whether it is possible to possess complete transparency and that it is possible to draw upon the established conventional financial literature Merton (1990, 1995) in terms of opaqueness within financial systems, in that the details and specifications of contracts are not publicly disclosed.

Interestingly, the notion of institutional regulation from the empirical interviews is not seen as being disparate from institutional regulation and from the interviews, the precepts are that the institutional issues, in terms of microprudential regulation are subsumed into the broader spectrum of systemic financial regulation. In other words, the governance of the SSBs in terms of competence and consistency is initialised at macroprudential level, with the provision of accredited qualifications via central bodies such as the IFSB and AAOIFI. The regulation of SSBs and human capital have implications at both the institutional and systemic Islamic financial regulation level, however, the empirical exploration suggests that the issues of institutional Islamic financial regulation are nested within the larger systemic Islamic regulatory framework.

6.2. Growth into secular markets and new entrants

Firstly, would be the growth of Islamic finance into more secular and non-traditional markets and its role as an alternative to conventional financial systems (El-Gamal, 2005; Oseni & Hassan, 2015). There is concern about the base understanding of implications of the socio-economic principles of Islamic finance proliferating the risk surrounding the adequate provision of Islamic financial services by new market entrants. The arguments put forth by the interviews for the provision of formal qualifications by central bodies could be pertinent in address this risk associated with new entries to the Islamic financial system. This development of base knowledge in turn fosters the development of systemic Islamic financial regulation.

6.3. Uniform foundational regulatory framework

Secondly, the notion of uniformity receives a substantial amount of attention within the literature and is seen as the core crux of the Islamic macroprudential regulatory framework (Ashraf & Khawaja, 2016; Ho, 2015; Zakariyah, 2012). Interestingly, this view is only partially shared by market participants, in that, whilst there is an acceptance of the need for foundational regulatory framework to aid development and regulatory stability, there is some acceptance of regulatory differences across Islamic financial systems. The discussions about regulatory uniformity draw on extant arguments raised within conventional financial literature in terms of differences in across conventional financial systems, for example, differences in central bank reserve requirements (Kareken, 1963). Potentially, central regulatory bodies such as AAOIFI and the IFSB have to establish regulatory balance between regulatory guidance and stifling totalitarian control (Apaydin, 2018). Nevertheless, whilst our findings suggest that complete harmonisation and uniformity is impossible and, to a certain extent, undesired, there are conscious steps being taken by the Islamic financial system to continually develop and improve the fundamental base of Islamic financial regulation.

6.4. Conventional financial product mimicry

Thirdly, we examine the issue of the development of Islamic financial innovation. While the literature focuses on how a uniform regulatory framework could help financial innovation (DeLorenzo, 2012; Oseni, 2013; Sarea & Hanefah, 2013), the empirical interview findings further disentangle financial innovation into a concern about the risks associated to financial product structures. It is possible to discuss the differences between literature and market participants' precepts from both a theological and economic perspective. From a theological perspective, mimicry of conventional financial instruments by Islamic financial innovation

calls into question the religious legitimacy of Shariah finance. A view, which is strongly held by the interviewees. From an economic perspective, mimicking conventional financial instruments creates an unfavourable competitive environment for IFIs and conventional financial entities. Given that Islamic finance has to contend with additional religious or Shariah risk this has to be priced into any Islamic financial instrument, making it more expensive than its conventional counterparts. Conceptualizing this from an economic perspective, the additional risk premium could price Islamic financial instruments out of the conventional market.

6.5. Central monetary authority

Finally, we address the calls for a lender of last resort to provide a financial safety net within the Islamic financial systems. The notion of a lender of last resort has been explored within the extant literature with conceptual studies such as Solé (2007), Muneeza and Hassan (2014) and Oseni (2015) highlighting that there is sufficient flexibility within the sovereign legal and financial systems to accommodate such a provision. Large financial hubs ranging from Hong Kong, Singapore, the United Kingdom and America have all seen substantial growth in the legal infrastructure and initiatives to support and adopt Islamic finance as a viable complementary and alternative financial system. The findings from our interviews further motivate this discourse in explicitly indicating that sovereign central banks should undertake this role as lender of last resort given their responsibilities as regulators of the financial system. However, there is concern about the underlying adherence to the religious principles in the provision of this facility given the secularity of central monetary authorities. Chatta and Abdul Halim (2014) provide some theological support for such a structure but highlight that this approach is sub-optimal from a Shariah perspective in that any emergency funding would not be Shariah-compliant but acceptable to prevent further market instability.

The interviews further progress this line of enquiry by indicating that the creation of a ‘mega’ Islamic bank would be more efficient from a socio-economic perspective and avoid the theological issues of using central banks in terms of liquidity provision. A template akin to the ECB is proposed with the mega ‘Islamic Central Bank’ instructing individual sovereign central banks. Moreover, this liquidity provided can be structured similarly to that of the ECB’s emergency liquidity assistance (ELA), via the use of repurchase orders (repos) requiring the need for collateral backed lending, which, can be argued, are closer to Shariah principles (Garcia-de-Andoain, Heider, Hoerova, & Manganelli, 2016). Whilst, the structure of the ECB

can be seen as a “successful” method of harmonizing markets and the ELA does meet the fundamental principles of a lender of last resort, there is persistent concern about how this central entity will deal with divergent religious ideology.

6.6. Empirical regulatory framework

INSERT FIGURE 2 HERE

Given our review of the extant academic literature and the findings from the interviews, we put forth our empirical framework in Figure 2 above. The empirical framework is a representation of a synthesis of the academic literature and primary interview data thus providing a more integrated understanding financial regulation. From our findings we nest institutional concerns within the systemic regulation with the indication that the provision of accredited qualifications by central authorities such as the IFSB and AAOIFI would address both institutional and systemic issues of SSB competence and consistency and new market entrants. From Figure 2 above we place suggestions of sovereign central bank involvement and ‘mega’ Islamic banks in dotted boxes to illustrate two solutions to addressing the provision of a safety net.

Additionally, there is also no mention of fintech from our interview analysis, however, it does raise a pertinent regulatory question in terms of financial regulation for further study. Major concerns about fintech from an Islamic financial regulatory perspective draw on the conventional literature and rest along the lines of disclosure and uncertainty in terms cryptocurrency as a payment mechanism albeit cryptocurrencies are seen more as an asset class as oppose to currency. Decentralised autonomous organisations (DAOs) also present a challenge to both conventional and Islamic finance in terms of governance and legal status. Finally, the policing of machine learning and artificial intelligence will have to consider the implication of religio-financial decision making in light of compliance to Shariah law (Alam, Gupta, & Zameni, 2019; Islamic Financial Services Board, 2019a). These elements provide substantial scope for further studies in to Islamic financial regulation.

7. Conclusions

Using an exploratory qualitative methodology, this study aimed to shed further light on the regulation of the Islamic financial system. Via the establishment of a thematic framework from

existing literature and subsequent interview analysis, our findings illustrate that there are divergences between existing academic knowledge and that of market participants. At an institutional level, our interview analysis highlights that SSB issues are diminishing. The overwhelming sentiment is that the continual growth of human capital and the development of market expertise is having substantial positive impacts on the regulation of SSBs. From a systemic regulatory perspective, there is substantially more capture of issues. There is congruence, with literature, from market participants on issues such as financial innovation, uniformity and an Islamic central bank. Summarily, market participants identified that i) complete uniformity of regulatory standards was not expected and that this could, potentially serve to subvert financial innovation ii) there is a distinct need for an Islamic central bank with two proposed model arising from the interviews – a ‘mega’ Islamic bank or adapting sovereign central banks to accommodate this role.

7.1. Contributions

We contribute to the academic literature in the following ways. This study extends the literature on Shariah governance and regulation using a qualitative approach to capture information from market participant perspectives on stylised theoretical debates of Shariah financial regulation. Our study differs from the existing literature by posing these stylised arguments to market participants in order to evaluate actual perceptions of these theoretical issues. This study, thus, bridges the gap in the academic literature through the exploration of how the specific types, processes and dimensions of Shariah regulation are developed and understood. We develop an extensive conceptual framework, which provides a comprehensive collective view of the extant academic knowledge on regulation and governance in Islamic finance. Furthermore, we extend the conceptual framework using the primary data to develop a comprehensive empirical model, which integrates market participant precepts on the academic literature. The novelty of these findings lies in the provision of a more holistic and complete view of Islamic financial regulation. This paper thus enhances our understanding of what Shariah-based regulations should focus on to develop sustainable regulation in the Islamic financial system. The empirical model in this study can be applied to both developed and developing economies, as a basis for understanding governance and regulations in Islamic finance, but such applications should take into consideration the different Shariah principles, culture and economy of the research context.

We can divide the implications for practice into two levels – institutional regulation via SSBs and systemic regulation of the Islamic financial system. Firstly, at institutional level, our study illustrates that the issues pertaining to SSBs are quickly diminishing. We should caution against suggesting that the regulation of SSBs is no longer an issue for consideration but rather use the findings from this study as a barometer for the impact of current institutional regulatory policies on addressing perceived issues with SSBs. Secondly, in terms of systemic Islamic financial regulation, it is evident that the divergences in Shariah financial standards across the Islamic financial markets cause substantial concern. Whilst, complete harmonisation is not expected, there is an increased need to establish a more succinct framework of regulation. From this study, the core area of focus is the consideration for a LOLR.

7.2. Limitations and Further studies

There is subjectivity with establishing a saturation point for interview analysis and we have endeavoured to define a robust structural process to minimize this subjectivity. This study developed and suggested both a conceptual and an empirical model using a qualitative approach; future studies could test the model in multiple economies, quantitatively, to improve generalisation.

In terms of further studies, firstly, SSBs are still relatively understudied within the Shariah financial literature and there is need for further exploration of their decision-making processes. The combination of religious and financial frameworks could create a situation where SSBs could be quasi self-regulating. That SSBs are governed by religion would suggest that failure to adhere to Shariah would result in catastrophic theological consequences and the utility from decision-making could be better conceptualised. Secondly, there is a decline in the academic literature on Islamic financial innovation. It is felt that further research is required into determining the extent that Islamic financial instruments mimic their conventional counterparts and to discover the reasons behind this direction of financial innovation. Thirdly, the academic literature on Islamic central banks is scarce and our study puts forward several questions that present scope for further study. Our findings allow us to pose questions such as ‘would sovereign central banks have to provide for Shariah-compliant lending to Islamic banks?’ and ‘would this source of finance for Islamic banks be similar to their conventional counterparts?’ Additionally, the model of a ‘mega’ Islamic bank illustrates an interesting proposition from a structural perspective. Questions such as ‘would a central entity whose financial responsibility transcends geographical boundaries be ideal in harmonizing a divergent

Islamic financial system?’, ‘would the reach of such an entity extend to conventional banks providing Shariah-compliant financial services?’ and ‘would this then result in a dual regulatory system for banks providing such services?’. Finally, the implications of the inception of fintech into the Islamic financial system as raised at the end of Section 6.6. above.

In conclusion, we set out to explore Islamic financial regulation. Our findings have shown that there are distinct differences between market participants’ perspectives and the thematic literature on Islamic financial regulation on issues such as uniformity and central monetary authorities. Thus, our study contributes to the literature through the creation of both a thematic and empirical framework synthesising the literature and the perspective of market participants thus providing a complete and more integrated conceptualisation of Islamic financial regulation. This synthesis also provides a richer contextualisation of the complex issues that allows for a better understanding of Islamic financial regulation.

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Region	Count (No. of firms)	Panel A: Institutional Type		Panel B: Mode of Operation	
		Islamic Banks	Non-banking	Shariah-based	Shariah-compliant
MENA (17)	200	94	106	174	26
South East Asia (5)	95	56	39	37	58
South Asia (4)	45	32	13	27	19
Other (8)	17	14	3	17	0
Total (39)	357	196	161	255	102

Table 1: Breakdown of IFIs (number of nations by region presented in parentheses)

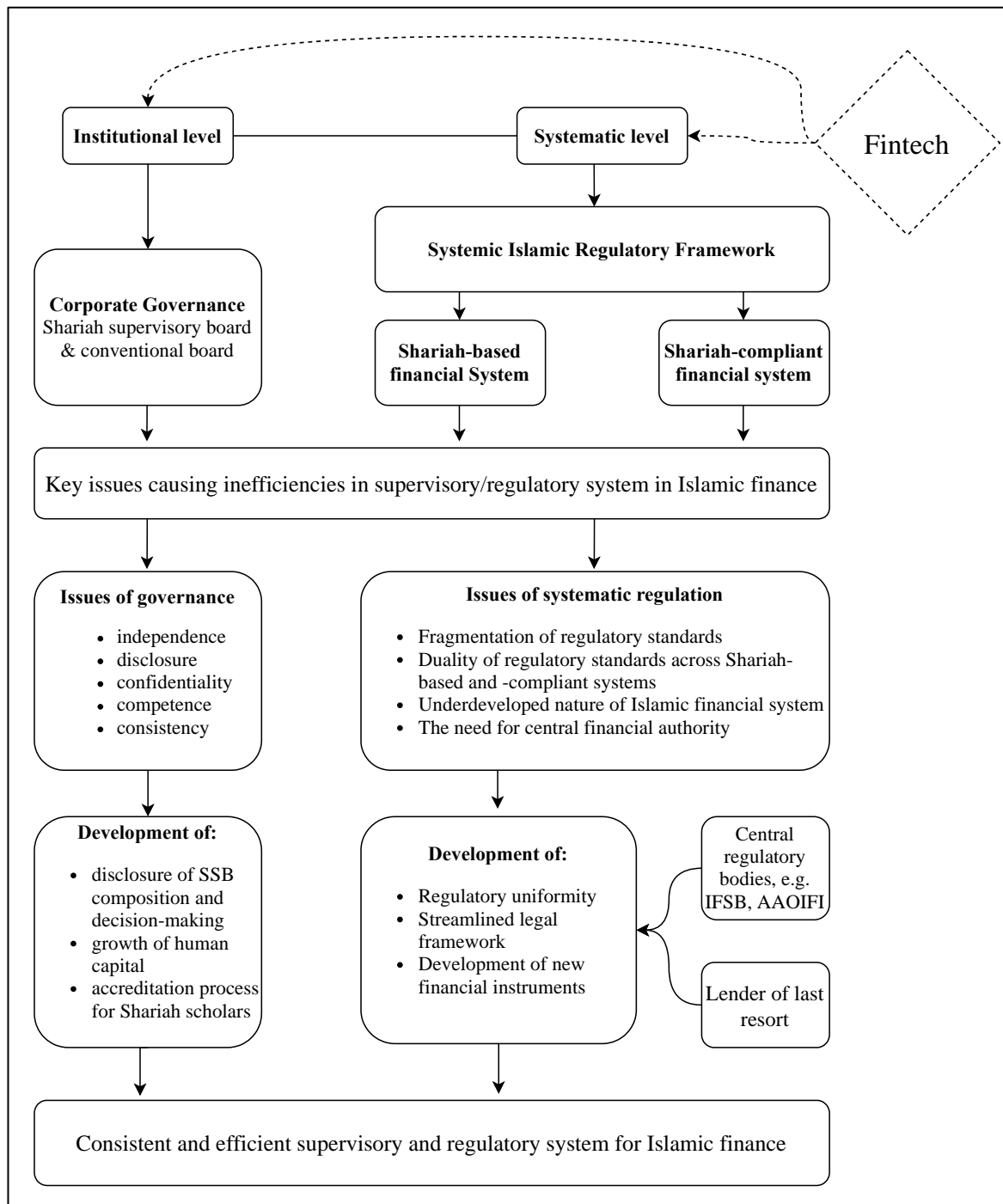


Figure 1: Conceptual Framework for Islamic Financial Regulation

Classification	Definition	Selection criteria
Academic	Significant involvement in the academic field of Islamic banking and finance	Based upon number of publications and conferences attended. Academics should have published at least five papers in national, international, and world-renowned journals over, at least, the period of 2010 – 2020.
Academic-Practitioner	Significant involvement in the academic and practical fields of Islamic banking and finance	Based upon a combination of number of publications and industry consultations. Academic-practitioners should have published at least five papers in national, international, world-renowned journals over, at least, the period of 2010 – 2020. Moreover, academic practitioners should also possess at least one industry consultation with a national or international body in Islamic finance.
Practitioner	Professional involvement in the field of Islamic banking and finance	Substantial position within an Islamic financial institution. We define substantial position as a member of the Senior Management Team, including CEOs, Treasurers, Managing Directors, and Senior Managers. Practitioners should have been in their posts for at least three years.

Table 2: Definition of Interviewee Groupings

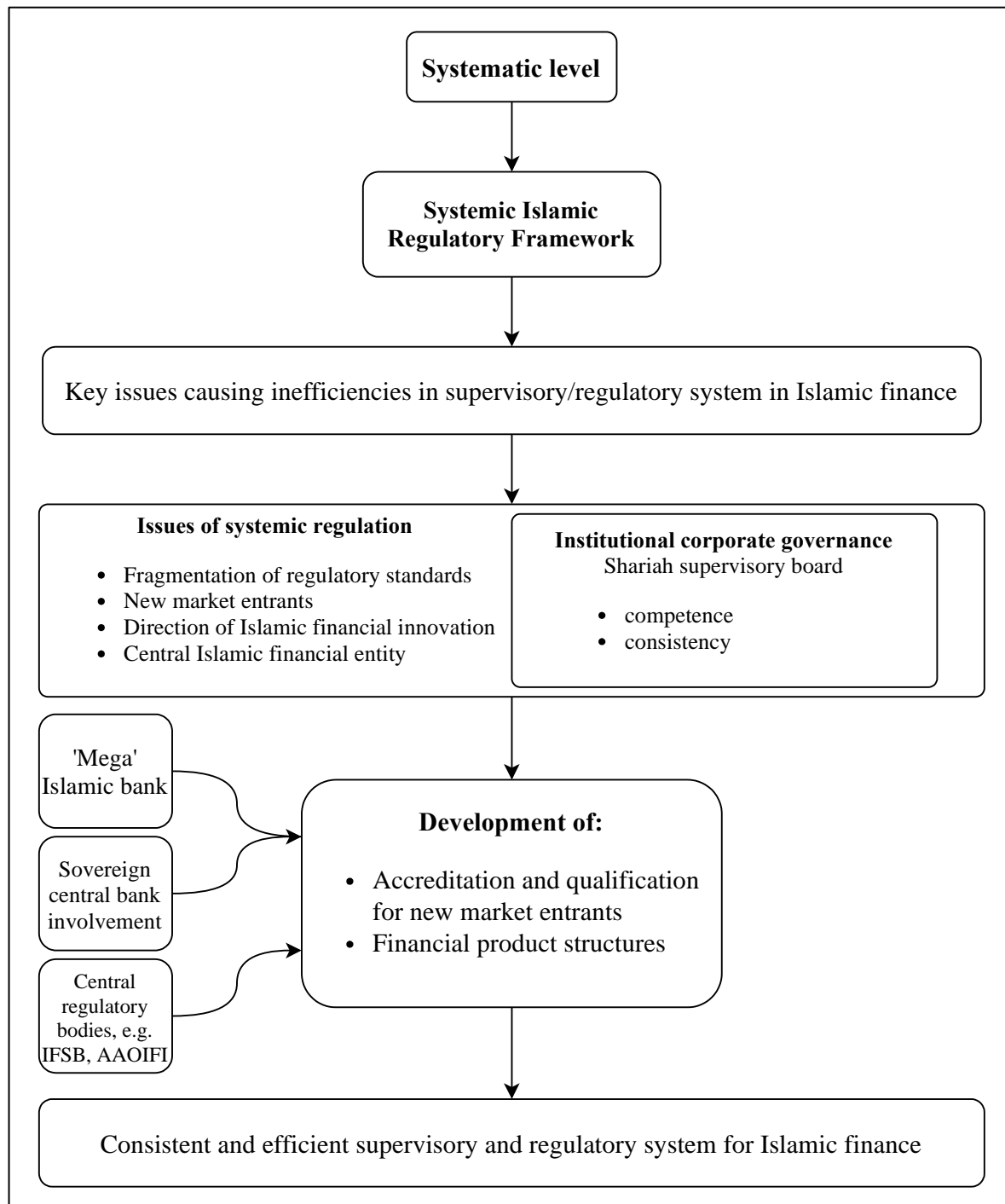


Figure 2: Framework from Empirical Findings

Appendix A

Regulatory Factor	Core Literature	Thematic Framework	Empirical Findings
Shariah-supervisory Boards	<ul style="list-style-type: none"> • El-Gamal (2005) • Azmat <i>et al.</i> (2014) • Oseni <i>et al.</i> (2016) • Al Mannai and Ahmed (2019) 	<ul style="list-style-type: none"> - Head hunting of specific Shariah scholars on the basis of leniency of decision - Shariah scholars on the Shariah-supervisory boards of different institutions and resulting conflicts 	<ul style="list-style-type: none"> - Shariah-headhunting and similar scholars on different boards are rapidly diminishing as the Islamic financial system grows
	<ul style="list-style-type: none"> • Hamza (2013) • Mejia <i>et al.</i> (2014) • Ullah <i>et al.</i> (2018) • Nawaz (2017) 	<ul style="list-style-type: none"> - Consistency of Shariah-financial decisions 	<ul style="list-style-type: none"> - Issues of consistency are diminishing with the creation of accreditation process and formal qualifications for Islamic finance
	<ul style="list-style-type: none"> • Khan (2007) • Safieddine (2009) • Bhatti and Bhatti (2010) • Platonova <i>et al.</i> (2018) • Riaz <i>et al.</i> (2017) • Grassa, Chakroun, and Hussainey (2018) 	<ul style="list-style-type: none"> - Disclosure as to the composition of Shariah-supervisory boards - Disclosure of the details of Shariah financial decision making 	<ul style="list-style-type: none"> - Complete transparency is not possible
Fundamental Regulatory Framework	<ul style="list-style-type: none"> • Khatkhatay and Nisar (2018) • Ho (2015) • Ashraf and Khawaja (2016) • Ullah <i>et al.</i> (2018) 	<ul style="list-style-type: none"> - Uniformity of the Shariah-compliant screening processes across conventional financial systems 	<ul style="list-style-type: none"> - Divergent Shariah-compliant criteria was not raised within the interviews
	<ul style="list-style-type: none"> • DeLorenzo (2012) • Bassens <i>et al.</i> (2010, 2011) • Pollard and Samers (2013) • Apaydin (2018) 	<ul style="list-style-type: none"> - Regional differences in interpretation of fundamental Islamic law creates varying standards for Islamic financial regulation 	<ul style="list-style-type: none"> - Harmonisation of the global Islamic financial hubs. - No absolute standardisation as this could preclude innovation
	<ul style="list-style-type: none"> • Sarea and Hanefah (2013) • Oseni (2013) • Oseni and Hassan (2015) • Farook and Farooq (2013) • Najeeb and Ibrahim (2014) • Song and Oosthuizen (2015) 	<ul style="list-style-type: none"> - Development of central bodies who undertake the ‘standardisation’ of IFIs - Role of AAOIFI and IFSB - Creation of an evaluation system that allows for a uniform evaluation of IFIs 	<ul style="list-style-type: none"> - Appreciation for the contributions of AAOIFI and the IFSB. - Accreditation process and formal education help with development of human capital allowing for further harmonisation.

	<ul style="list-style-type: none"> • Mejia <i>et al.</i> (2014) 		
Islamic Finance as an Alternative	<ul style="list-style-type: none"> • Ariss and Saredidine (2007) • Monger and Rawashdeh (2008) • Wilson (2008) • Fang and Foucart (2014) • Azmat <i>et al.</i> (2014) • Muneeza and Hassan (2014) • Oseni (2015) • Nawaz (2017) • Daher <i>et al.</i> (2015) 	- Islamic finance as an alternative financial system	<ul style="list-style-type: none"> - The growth of Islamic finance into more conventional markets - Need for individuals switching from conventional to Islamic finance to understand the unique characteristics of Shariah
Central Banking	<ul style="list-style-type: none"> • Ahmad and Hassan (2007) • Solé (2007) • Siddiqui (2008) • Dar and Azami (2010) • Msatfa (2012) • Hassan <i>et al.</i> (2013) • Chatta and Abdul Halim (2014) • Zins and Weill (2017) 	- Need for an Islamic central bank	<ul style="list-style-type: none"> - Conventional central banks establishing Shariah-compliant financial facilities. - Creating a “mega” Islamic central bank overseeing the Islamic financial system
Financial Innovation	<ul style="list-style-type: none"> • DeLorenzo (2012) • Zakariyah (2012) • Abdul-Rahman <i>et al.</i> (2014) • Daher <i>et al.</i> (2015)) 	- Regulatory standards to establish greater development of the depth and breadth of Islamic financial markets	<ul style="list-style-type: none"> - There is scope for financial innovation - Desire for Islamic financial instruments, which do not recreate conventional financial products.

Table 1: Summative of Thematic Framework and Empirical Findings

Appendix B

No.	Group Designation	Position and Expertise	Method	Duration	Institution Type	Region
1	Academic 1	Professor (Economics)	telephone interview	52 mins	University	Other
2	Academic 2	Professor (Economics)	telephone interview	42 mins	University	Other
3	Academic 3	Senior Lecturer (Ethical Investments)	face to face	56 mins	University	Other
4	Academic 4	Lecturer (Accounting Standards)	face to face	50 mins	University	Other
5	Academic-Practitioner 1	Treasurer and PhD candidate	face to face	47 mins	Islamic Bank and University	MENA & Other
6	Academic-Practitioner 2	Shariah Scholar and PhD candidate	telephone interview	52 mins	Islamic Bank and University	MENA & Other
7	Academic-Practitioner 3	Professor (Banking and Finance) and Industry Consultant	face to face	50 mins	University, IFSB and central bank	Other, SEA and MENA
8	Academic-Practitioner 4	Professor (Economics) and Industry Consultant	telephone interview	50 mins	University and central Bank	Other and South Asian
9	Practitioner 1	Managing Director and Industry Consultant	face to face	50 mins	Islamic financial consultancy and AAOIFI	MENA
10	Practitioner 2	Deputy Managing Director	telephone interview	41 mins	Islamic Bank	SEA
11	Practitioner 3	Senior Manager (Governance and Ethics)	telephone interview	45 mins	Central bank	MENA
12	Practitioner 4	Senior Manager (Equity Investments)	telephone interview	41mins	Islamic Bank	SEA
13	Practitioner 5	Senior Manager (Personal Wealth)	telephone interview	45 mins	Islamic Bank	SEA
14	Practitioner 6	Senior Manager (Retail Banking)	telephone interview	50 mins	Islamic Bank	SEA
15	Practitioner 7	Senior Manager (Sales)	telephone interview	42 mins	Islamic Bank	SEA
16	Practitioner 8	Independent Investment Banker	telephone interview	45 mins	Investment house	SEA
17	Practitioner 9	Senior Manager (Corporate Finance)	telephone interview	51 mins	Islamic Bank	SEA

Table 2: Summative profiles of interview candidates