Arlinda Beqiri

Corporate Governance and Banking Governance within
Conventional and Islamic banking systems.

A Cross-case Study between Conventional banks in Sweden and
Islamic banks in UK.

Business Administration
Master’s Thesis
30 ECTS

Term: Autumn 2016
Supervisor: Samuel Petros Sebhatu PhD
Abstract:
The aim of this study is to understand and analyse the relationship between corporate governance (CG) and banking governance (BG) in Conventional and Islamic banking systems. The reason for choosing this topic was because the regulations and banking systems within Conventional banks are differently in comparison to Islamic banks, which means that their corporate governance and banking governance are influenced by different mechanisms and therefore regulated differently. Since Conventional banks stands for a small amount of Islamic banks in their markets and Islamic countries do have Conventional banks in theirs, made this topic a good case study. Furthermore is Sweden a Conventional country where they don’t offer Islamic financial services and the UK is a Conventional country where they do, which was an interesting fact since both of them are European countries with similar regulations. The author of this thesis chose qualitative, semi-structured interviews, where six persons: three from Sweden and three from the UK stood for answers toward their banking systems. Since these respondents were standing on a high position within their organizations did they have the knowledge needed to answer the questions asked. The result showed that the relationship between CG and BC in Conventional and Islamic banking systems have an impact in the way different types of banks operate. Identifying the Conventional and Islamic banks differences and assessing on how the Corporate Governance and Banking Governance do operate solves the complexity in the system. Based on the findings, countries that are applying the Conventional system need to expand their regulations and mechanisms so that other systems could operate without a need for changes in their own. They also need to expand their knowledge, where the population needs to be familiar with other banking systems and services as well.

Keywords: Corporate Governance, Banking Governance, Conventional banks, Islamic banks, regulations and financial products.
Acknowledgement:
I want to thank my supervisor, Samuel Petros Sebhatu, who has been a great support and been helping me on the right way. Additionally, would I like to thank Samuel for his ability to provide the right guidance. I would also like to thank Karlstad University for their studies and program, since I wouldn’t have made it without their strict and hard classes, which gave me the knowledge needed to make this thesis possible. Furthermore would I like to thank the respondents and the banks and institutes that participated, since they made this thesis possible.

Lastly, I would also like to thank my twin sister, Ardita Beqiri, who’s always supported me, where she has been a rock that I could lean against when I encountered obstacles, both within this essay and under my four years of studies at the University. I’m also grateful for my mother, Bukurija Beqiri, and my uncles, Bejtullah Islami and Lulzim Islami, since they have been a great support for my studies.

- Arlinda Beqiri
Table of Contents

1. INTRODUCTION ............................................................................................................. 9
   1.1 Overview .................................................................................................................. 9
   1.2 Problem statement ............................................................................................... 10
   1.3 Aim and objective ............................................................................................... 11
   1.4 Research questions ............................................................................................ 11
   1.5 Limitations ........................................................................................................... 11
   1.6 Structure of the paper ......................................................................................... 12

2. METHODOLOGICAL STUDY .................................................................................... 13
   2.1 Research strategy ............................................................................................... 13
   2.2 Research method - case study ............................................................................ 14
   2.3 Data collection .................................................................................................... 15
   2.4 Data analysis ....................................................................................................... 16
   2.5 Trustworthiness – validity and reliability .......................................................... 17
     2.5.1 Ethical research .............................................................................................. 18

3. THEORY ....................................................................................................................... 20
   3.1 Corporate Governance ....................................................................................... 20
     A) Corporate Governance in Islamic perspective .............................................. 20
     B) Corporate governance in Sweden ................................................................. 21
     C) Corporate Governance in United Kingdom ................................................. 21
   3.2 Banking Governance ........................................................................................... 21
   3.3 Mechanisms in both Islamic and Conventional banks ........................................ 22
     A) Islamic mechanisms ......................................................................................... 22
     B) The Riksbank .................................................................................................... 23
     C) Finansinspektionen ......................................................................................... 23
     D) Mechanisms in the UK .................................................................................... 23
   3.4 Financial products ............................................................................................... 24
     A) Profit- and loss sharing .................................................................................... 24
     B) Other financial products .................................................................................. 25
     C) Conventional financial products .................................................................... 25
   3.5 Summary of the theoretical framework .............................................................. 25

4. EMPIRICAL STUDY ...................................................................................................... 27
   4.1 Background .......................................................................................................... 27
     A) Conventional banks in Sweden ....................................................................... 27
     B) JAK .................................................................................................................... 27
     C) Islamic banks in UK ......................................................................................... 28
   4.2 Findings ................................................................................................................. 28
     A) Findings from Sweden ..................................................................................... 29
     B) Findings from UK ............................................................................................. 31
   4.3 Summary of the empirical study ......................................................................... 34

5. DISCUSSION ............................................................................................................... 36
   5.1 Conventional and Islamic banking systems - Corporate Governance and Banking Governance ........................................................................................................... 36
   5.2 Swedish and UK banking systems perception of Islamic banking systems .... 39
   5.3 The CG and BG systems within Conventional banks affection of the implementation of Islamic financial products ................................................................. 40

6. CONCLUSION ............................................................................................................. 42
   Implication .................................................................................................................. 42
   Further research ........................................................................................................ 43

7. REFERENCES ............................................................................................................. 44
Acronyms:

CG – Corporate Governance

BG – Banking Governance

UK – United Kingdom

SSB – Shari’ah Supervision Boards

IFSB – Islamic Financial Service Board

IIRA – Islamic International Rating Agency

FI – Finansinspektionen

IASB – International Accounting Standards Board

IFRS – International Financial Reporting Standards

AAOIFI – the Accounting and Auditing Organization for Islamic Financial Institutions

IFI – Islamic Financial Institutions

PLS – Profit- and Loss Sharing
1. INTRODUCTION

Chapter one begins with an explanation of what corporate governance and banking governance is and how it relates to the Conventional and Islamic banking industry. This leads the reader to the problem statement followed by the aim and objective of the study and further on to the research questions that will be answered throughout the study. At the end of the chapter, limitations and structure of the paper will be explained.

1.1 Overview

Corporate Governance (CG) is a tool that is used to manage and monitor the effectiveness within a company (Ben Bouheni et al. 2016). CG does take the international regulations and laws into consideration and this to create cooperation between a company and their stakeholders (Ibid.). Cooperation between all stakeholders, foremost between investors and managers, is the key to success, where cooperation can highlight the efficiency within a company (Sebhatu & Pei-Lin 2015; De Andres & Valleado 2008). CG also controls the uncertainties that can arise from investments and financing, where it has a major impact on investments and therefore a major impact on both the shareholders and the company (Sebhatu & Per-lin 2015). The CG in Islamic countries is structured so it fulfils the requirements from Shari’ah (Bukhari et al. 2013). The Swedish CG on the other hand is based on the “comply or explain” code (Johanson & Østergren 2010, p. 531) and lastly, the UK, who uses the common law in their CG (Johanson & Østergren 2010).

The CG within banks does differ from other companies (Ben Bouheni & Ammi 2015; De Andres & Valleado 2008). These differences are founded in how banks are regulated, how their capital is structured, within the products they offer and other mechanisms as well (Haan & Vlahu 2016). Banks are more deeply regulated in comparison to other corporations, this because in the event of a bank failing the consequences can be dire: people losing their savings, homes and jobs for example (Ibid.). The complexity of the business creates a situation where supervisory board members need experience of the banking industry in order to monitor the executive board and to be able to assess risk factors (Lin & Chang 2016). This is different from other industries where knowledge of one type of business might be applied to another, but in order to monitor the boards in banking, experience is an important factor (Haan and Vlahu 2016).

In a bank’s performance, the corporate implementations have to fulfil the laws of the society, where different concepts and methods are used to measure the financial terms (Ben Bouheni et al. 2016). In the Islamic society, the system, economy and politics fall under their religion,
namely the so-called *Shari’ah* (Lewis 2001). *Shari’ah* means *"the way to the source of life"* and it’s used as a guideline for the Islamic systems (Lewis 2001, p.104). Based on *Shari’ah*, every action in the Islamic banks has to be consistent with Islamic rules and regulations (Ben Bouhei et al. 2016). An important note in the Islamic region is the Islamic Financial Service Board (IFSB) and the Islamic International Rating Agency (IIRA) who contributes with supervision to the banking system, which includes that the regulatory and political institutions complies with *Shari’ah* Supervision Boards (SSB) and therefore the rules of *Shari’ah* (Ben Bouheni & Ammi 2015).

The Swedish CG have been reformed so it fulfils the requirements of the Swedish community (Jonnergård & Larsson 2007), where the Riksbank and Finansinspektionen (FI) are the two authorities that the Swedish banks have to follow since these two sets the regulations. The Swedish Central bank is called the Riksbank and it works with issuing money and making sure that it retains its value over time, otherwise known as monetary policy (Riksbank 2011). FI on the other hand does ensure the financial system in Sweden, where they work toward a stable and a working financial system for every member (Finansinspektionen n.d.a). The CG within UK is influenced by the principles from the Financial Reporting Council (FRC) (Financial Reporting Council 2016). These principles shall be followed by all the listed companies in UK, where the board members are the ones reporting how the organization did follow these principles (FRC n.d). Bank of England is UKs Central bank and they work with the monetary stability and policy in UK (Bak of England n.d.a).

This thesis is focusing on the empirical study of banks from Sweden and UK to assess and understand the Conventional and Islamic banking methods. Two banks from Sweden and two banks from UK were selected. The view of the Riksbank and one institute in UK were also included.

**1.2 Problem statement**

During the global financial crises in 2008, Conventional banks took a financial hit; at the same time there was an upswing for the Islamic banks (Ibrahim 2015; Mollah & Zaman 2015). This growth of Islamic banks increased their relevance in the market and they became more important from a financial standpoint (Ashraf et al. 2016; Ibrahim 2015; Wan Adbullah et al. 2015). The reason why Conventional and Islamic banking systems saw different results from the financial crisis can be attributed to that the Conventional system may differ from the Islamic system in many aspects. The main reason was that they offer different products: Conventional banks offer loans with interest rates (Carmichael & Hanford 2015), while Islamic banks have created new products in order to comply with the principles of *Shari’ah* (Ibrahim 2015). Riba prohibits interest, which is one of the major differences from the
Conventional system (Lewis 2001; Napier & Haniffa 2013). Their mechanisms differ as well, such as the Shari’ah boards in Islamic banks, the Riksbank and FI in Sweden, and FRC and Bank of England in UK, which intend to influence their CG and BG. These mechanisms give directions that shall be followed by the country, which may be an issue toward establishing Islamic banks in many Conventional countries. Furthermore is the view on CG and BG different, where some countries have been developed further and perceived the differences between these two (Haan & Vlahu, 2016).

There are, as mentioned, differences in the systems between the Conventional and Islamic banks but since all banks are competing in same environments are these banks regulated in similar ways (Ben Bouheni et al. 2016). Despite this does no progress appear within the Swedish market, although UK stands for six Islamic banks and has adapted its system to the Shari’ah (Islamic Finance n.d). Both Sweden and UK stand for 5% Muslims of the population (Motargument n.d), where both countries do follow regulations that are set by the IASB (IFRS 2016). Yet there are six Islamic banks in the UK and Sweden stands for none. How can this be? Does it have something to do with the CG and BG within Conventional banks or is it because knowledge regarding these areas is missing within the Swedish market in comparison to the English market?

1.3 Aim and objective
The aim of this thesis is to understand and analyse the relationship between Corporate Governance and Banking Governance in Conventional and Islamic banking systems. The objective is to identify the Conventional and Islamic banks differences and to assess how the Corporate Governance and Banking Governance do operate within these differences.

1.4 Research questions
Three research questions have been developed based on the aim and objective above. They are:

- How does the difference between Conventional and Islamic banks influence Corporate Governance and Banking Governance systems?
- How do the Swedish and UK banking systems perceive the Islamic banking systems?
- How do the Conventional banks CG and BG systems affect the development of Islamic financial products in Sweden and UK?

1.5 Limitations
This thesis has certain limitations that have to be taken into consideration. The author had to limit herself on to one specific area because there’s a timeframe. Since the Islamic system differs somewhat from the Conventional system did the author decide to immerse herself in
the banking system, otherwise it would be too broad of a topic. The author chose this specific topic because there’s a research gap within this area, where the knowledge toward Islamic banking system may be missing in the Conventional market. Additionally may the Conventional CG be a reason for not establishing any Islamic banks there. The author choose Swedish banks to represent conventional banking point of view because it would increase the reliability and validity by making the interviews face to face or over the phone in the respondents’ mother language. Furthermore did the author chose the Islamic banks in UK to represent Islamic systems view since UK basically has the same systems as Sweden does, where both of them do follow the regulations from IASB (IFRS 2016).

1.6 Structure of the paper

In chapter one an introduction will be given, where the reader will get an overview of the topic. The reader will also be introduced to the problem statement. The aim, objective, empirical study and limitation will also be introduced in this chapter. Chapter two will focus on which method and strategy the author decided to use. Chapter three will focus on the theory, where books, articles and other literature will be the biggest source of information toward the problem statements. Chapter four will focus on the empirical study, where the semi-structured interviews will mainly be the source of collected data, both from Islamic banks in the UK and Conventional banks in Sweden. Chapter five will give a discussion that combines both the theory from chapter three and empirical study from chapter four. The last chapter will give the reader a conclusion but also implications and advice for further studies within this area.
2. METHODOLOGICAL STUDY

Chapter two will explain how the author intend to approach the subject matter, why it was chosen, how it will be researched, what strategies will be used, how data was collected and analysed, and finally how the validity, reliability and ethics will be maintained.

For the methodological study to be perfect, the author has to choose a method that fulfils the research questions and research gap for the thesis. The part that shows the relationship between theory and research is called method, which makes it important to determine the different theories and how to collect data in the best possible way (Bryman & Bell 2014). Factors such as theory, knowledge and values affect how the research will be driven forward. Within the values, contacts with the term personal values affect the author's opinions and knowledge (Ibid.). Why the author chose this area is a question which can be answered by opinions, where opinions stands for knowledge; Conventional banks have to be familiar with the word banking governance but also have the knowledge about how the Islamic banks are structured. There are differences within these two systems, where Islamic banks intend to follow he rules of Shari’ah. Since both banking systems are competing in the same market are they regulated in similar ways, with some minor differences in their CG, which have to be lifted (Ben Bouheni et al. 2016).

2.1 Research strategy

Qualitative or quantitative approaches are used in research strategies. The qualitative strategy focuses on a few interviews that require deeper and longer responses while the quantitative strategy focuses on quantity, where a number of questionnaires are distributed and these surveys are used for data and analysis (Bryman & Bell 2014). Since the qualitative strategy focus on what the respondent answers is it more applicable in this thesis. The qualitative strategy gives an in-debt study, which is the main reason for choosing it, since the author can analyse and make a deeper study within her area (Ibid.). To understand how much knowledge the respondents from Sweden and UK have does the questions need to be formulated in the best way. Formulated questions will, in turn, give the author an insight on the CG structure within the different banking systems since the answers will be more explained. Additionally will these questions give the author an insight on how much knowledge the respondents have on both their own systems and the other banking systems, which improves that the qualitative method is the best choice.
Furthermore is the inductive method used. Within the inductive method, the researcher has none or little knowledge about the subject matter (Bryman & Bell 2014). The knowledge within the inductive method will be gained through conducting observations; in other words, by performing empirical studies after reading articles, which gives an overview of the subject (Bryman & Bell 2014; Deegan & Unerman 2011). The deductive method is the inductive methods opposite and it explains the connection between theory and practice, where hypotheses leads to research and theory (Bryman & Bell 2014; Deegan & Unerman 2011). The author doesn’t have the knowledge required to be able to use the deductive method and since she only found few previous studies that looks into the differences between CG, BG, Conventional and Islamic banks, makes the inductive method most useful. This since there’s a research gap and within research gaps, inductive methods are applied (Bryman & Bell 2014). By using the inductive method, the author will get the knowledge needed to create the best possible questions that will give the answers that can fulfil the research gap in this thesis. Choosing the inductive and quality approach as a method will give both longer and more thought-out responses. This is what the author strived for since the respondents have had the chance to think through the answers before responding, which will lead to higher knowledge and better understanding from the author’s side regarding the respondents’ knowledge within areas such as CG, BG and the different banking systems (Bryman & Bell 2014).

2.2 Research method - case study

The development within different theories is the main purpose for further research in which different types of experiments require different types of methods (Eisenhardt 1989; Eisenhardt 2007). Business administration specialization is no exception, where everything from experiments such as interviews within the qualitative method to survey studies within the quantitative method is useful (Bryman & Bell 2013). Case study is a research study that is applicable when the author wants to perform the same study a number of times, which is a method that can be applied to interviews because interviews are performed with different respondents (Eisenhardt 1989). A cross-case analysis also had a part in this thesis. The cross-case analysis was used because the author wanted to build a thesis that contribute to the differences in Conventional and Islamic banks, where trustworthy findings will be developed (Yin 1994). These findings will later be compared to one another. Within this study, the author looked for the similarities and differences in Sweden and UK, but across the countries as well. UK gave answers from their perspective and the respondents from Sweden gave answers based on their point of view. Furthermore will these differences and similarities be compared to one another in the discussion-chapter, this to create a discussion regarding the
answers and to finally make the conclusions through these answers based on the cross-case analysis from both the respondents from Sweden and UK.

2.3 Data collection
The theory within this thesis is based on secondary data, i.e. information gathered from previous studies (Bryman & Bell 2014). The empirical investigation, on the other hand, is based on primary data where it’s considered that the information coming from the respondents are able to influence the development in this research (Ibid.). It’s therefore suggested that the empirical data will be based on the CG and BG within Conventional and Islamic banking systems. Collecting primary data through phone calls or face-to-face interviews will give original and unbiased answers, which will increase the advantage with the primary data. The theory is used to perform the observations and get the primary data needed from interviews (Eisenhardt 2007).

A) Primary data:
The most useful method of qualitative research is called interviews (Bryman & Bell 2014). By interviewing one respondent one single time and develop data from this interview is one of the reasons that this method is applicable in this study since the author wants an insight into the respondents knowledge. Interviews are challenging since the respondent provides further answers, which means that the questions must be designed so that the respondents can give more thought-out and longer responses (Ibid.).

Interviews within qualitative researches can be unstructured, semi-structured or structured. For this thesis, semi-structured interviews will be conducted. The reason is because the respondent should be able to talk freely and the interviewer should be able to ask supplementary questions without destroying the interview-guide (Bryman & Bell 2014). The interviews took place in well-adjusted environments, both through the phone-calls and face-to-face interviews. Further did six respondents give their point of view, where these respondents have a higher position within a bank or institution, which gives more knowledgeable answers based on their experiences. Bank A, JAK Medlemsbank (JAK) and one respondent who have been collaborating with the Riksbank stood for the respondents from Sweden. These interviews stood for two phone-calls and one face-to-face interview. The interviewer made the phone-calls from the University, where she recorded the interviews. The face-to-face interview was made in Stockholm, which means that the interviewer had to transport herself to Stockholm to made the interview. Bank X, bank Y and institute Z stood for the respondents coming from Islamic banks in UK. Two of the interviews were made through phone-calls from the University. The last interview from UK was made face-to-face, which means that the interviewer had to take herself to London to make the interview. This
means that the interviewer got the personal experience since she had the opportunity to make observations while being inside an Islamic bank. In average were the interviews around 40 minutes long.

B) Secondary data:
To gather information and knowledge on the basis of reading articles or other forms of literatures is called secondary data. This information is important because the author can get an insight into areas where articles and literature show what’s already found (Bryman & Bell 2014). This secondary data is text materials, so-called a literature review, which was collected from articles and textbooks in the library at Karlstad University. The literature review will give the author the knowledge needed to fulfil the requirements of this thesis but also to support the current knowledge. The articles were brought from different websites, which can be founded at Karlstad University library, where Academic Search Elite accounted for large portions of the articles. A few articles have also been taken from Google scholar. Additionally, did the author found information in the websites of the Riksbank, FI and Swedish banks where “about the bank” was in priority. In UK, the websites from FRC and the Bank of England stood for the collected information. The majority of the collected secondary data is about Islamic and Conventional banks and their systems. The literature review was to gather the knowledge needed toward asking the questions that will give the best answers to fulfil the research gap and research questions of this thesis.

2.4 Data analysis
Each qualitative application collects a lot of data, which must be transcribed (Hycner 1985). What can be added is that qualitative data is very easy to analyse, since the semi-structured interview is usually used (Bryman & Bell 2014). What is hard, according to Bryman and Bell (2014) is to know which part that is more useful and which part that isn’t. Coding, categorization and thematic analysis are some terms that have been helpful for the analysing. As much data as the qualitative method collects through a number of interviews can lead to questions such as "what are we supposed to do with all this?" This can be answered by mentioning that there isn’t one correct way: different options and solutions are structured (Bryman & Bell 2014). Three stages can be used as a guide, where strategies, techniques and analysis are in focus. Transcriptions were made and it’s adaptable to this thesis since it will be helpful toward analysing which parts that shall be useful for the conclusion and which parts that wont. These transcriptions helped the author to see what was more useful for her study. The author made transcriptions after every interview, which took ten hours/each in average.

A technique that can be used is coding (Bryman & Bell 2014). Coding involves breaking down all the data into different parts to find connections. Coding is done by reading all the
transcriptions and reduce the irrelevance parts (Ibid.). The relevant information is the parts where the answers fulfil the research gap and research questions of this study. The author coded the transcription by seeing all transcriptions and trying to find similar and different answers that will be helpful for her study. What can be added is that the author chose open coding, which means that the coding included categorization, which is used within the thematic analysis.

Categorization is done to make the analysing easier by connecting the information from the categories, where thematic analysis will ease the analysing. These categories will make it easier to draw conclusions from the coding and categories (Bryman & Bell 2014). The author did this by re-read the relevant parts from the transcriptions and put them into categories. The categories are: knowledge, equalized, independency, unity, determine, dependency theory, alternative, ignorance, uncertainty, adaption and innovative. These categories were divided into three themes, which is explained below.

Thematic analysis is used to structure the transcription and the categories from above under themes (Bryman & Bell 2014). The author started to put the relevant responses that were divided in categories, into three themes. These themes were then explained, were the author found connections from the respondents’ answers. These themes did also give the expression that the respondents from Sweden had a similar amount of knowledge regarding these areas, with minor differences. The respondents from UK gave also same amount of knowledge, which was showed in the findings. These themes can be founded in chapter 4, where the findings from Sweden and findings from UK have these three themes as headlines: Corporate governance – how is the banking system structured?, Interest rate – important or unimportant?, and Islamic banks in Sweden – possible or not? With the help of these themes will all the research questions be answered by fulfilling the research gap of this study.

2.5 Trustworthiness – validity and reliability
Reliability measures how reliable and designed the questions and the study are (Bryman & Bell 2014). According to Hycner (1985) should the interviews give the same results, even if another person made the interviews. Therefore do the reliability measure how good questions are asked in comparison to the subject and this by having the knowledge needed about the background of the interview questions (Bryman & Bell 2014). When it comes to the interviews were four of them made thru phone-calls and two face-to-face, which increased the reliability since the questions were asked by the author after considering her questions and the respondents had time to think thru and give answers based on their knowledge. Additionally
were the face-to-face interviews made in Stockholm and London, which increased the reliability since they were made face-to-face. The interviews from both the phone-calls and face-to-face were particularly giving the same answers, which increases the trustworthiness within the questions. The data collection had to be fully transcribed from the recording, so it fulfilled its reliability (Silverman, 2006). Further did the analysis need to be consistent. This has been done by coding, categorise and thematic the transcriptions to fulfil the research gap and research questions. Finally, when analysing, the author tried to see it from all point of views, which have increased the reliability since only seeing it from one point of view would have reduced the reliability and the point with interviewing different respondents (Bryman & Bell 2014). With this said, did the author see both Sweden’s and UKs point of view, but also Conventional and Islamic banks views.

Validity on the other hand focuses on if the measurements do measure what they intended to measure (Bryman & Bell 2014; Hycner 1985). This said; if you are doing the interview again, it shall measure the same intentions as before and the conclusions have to be the same as earlier (Silverman 2006). In order to meet the requirements of validity did the author intend to ask questions that were directly connected to the aim and research questions, this so the research gap will be fulfilled (Bryman & Bell 2014). By looking at the result from the empirical study did the Islamic banks in UK and the Conventional banks in Sweden give particularly same answers. Swedish respondents gave the same conclusions toward their CG and the banking systems. Furthermore did the respondents from UK give similar answers to their BG and banking systems. Their high positions may increase the validity since the respondents from Sweden and UK have the knowledge needed to answer the interview questions on behalf of the bank. The interviews were conducted in Swedish for the respondents from Sweden, and in English for the respondents from UK, which increase the validity since both the respondent and the interviewer did the interview in their mother language. The validity is increased since the respondents from Sweden were united regarding most of the questions and the respondents from UK were united regarding their answers (Bryman & Bell 2014). Lastly, since the author has been using cross-case study, where she saw the similarities and differences and combined them, was the validity fulfilled (Ibid.).

2.5.1 Ethical research
Ethics is very important for the respondents where the author had to fulfill the requirements coming from the respondents. Bryman and Bell (2014) said that the interviewer have to ask the respondents if they wanted to be a part of the study. Since the author made phone-calls and sent e-mail to the respondents, did she only get answer from the persons that wished to be
a part of the study. Furthermore, did the respondents have to be aware of their position in the interview and their correspondents but also be anonymous if they wished. One respondent from Sweden wished to be anonymous along with the bank. Ann-Marie Franklin from JAK and Bo Franzén gave permission to use their names. All the respondents from Islamic banks in UK wished to be anonymous, along with the banks. This is the reason why the respondent from Sweden were named Mister A and the bank were responded to Bank A. Additionally were the respondents from UK named Mister X, Mister Y and Mister Z and the banks or institutes they represented bank X, bank Y and institute Z. According to Bryman and Bell (2014) will the collected data only be used in the thesis. Since the banks from UK wanted this on paper, a clarification were made, where the author and the supervisor promised that their and the banks names will be excluded and that the gathered information would only be used for the thesis. For the Swedish respondent, this was unnecessary since a simple promise was the only thing that was required.
Chapter three will delve deeper into the subjects presented in the introduction chapter. Focusing on the differences and similarities of CG and BG in the Conventional and the Islamic banking system as well as the different financial products that they offer.

3.1 Corporate Governance
Corporate governance (CG) is an important topic in today’s modern economy (Qiran & Yeung 2015). The development of the word "corporate governance" is influenced by a country’s accounting, economy, laws and finance, which may differ countries apart (Mallin 2013). CG does take internal aspects such as board structure and internal control, but also external aspects such as the organizations relationship with all the stakeholders, into consideration (Mallin 2013; Ben Bouheni et al. 2016). Management with different tools that both manage and monitor the company’s effectiveness through relationships with various corporate stakeholders is what CG is all about (Kooiman 2010). No separation or lack of information should exist between the stakeholders, not least between the investor and the management, which will lead to elimination of the agency theory problems that may occur between two parts (Ben Bouhemi & Ammi 2015; Ben Bouheni et al. 2016). CG is a way to minimize the major owners power, such as minimization of the banks and shareholders force within a given country (Kooiman 2010). This is the way to equal rights, where everyone's interests will be taken care of (Kooiman 2010; Ben Bouheni & Ammi 2015).

A) Corporate Governance in Islamic perspective
CG in the Islamic countries is required to follow Shari’ah in both practice and corporate policy (Bukhari et al. 2013; Ben Bouheni & Ammi 2015). "The way to the source of life" is the correct translation of the word "Shari’ah" (Lewis 2001, p. 104), which is used as a framework in Islamic countries (Lewis 2001). Shari’ah is in charge of matters relating to politics, economy, religion, accounting: virtually all regulations. Shari’ah works for moral rights, which means that their decisions are formulated for these justices (Ibid.). This also means that all types of contracts are allowed as long as they don’t go against Shari’ah (Lewis 2001; Wan Abdullah et al. 2015). Knowing how to interpret Shari’ah can be difficult and in order to avoid breaking any rules, their CG had companies form a body of scholars (Bukhari et al. 2013), the so-called "Shari’ah Supervision Boards” (SSB), which is a large part of Islamic country's governance and management (Mollah & Zaman 2015). The SSB is responsible for guiding the decisions in the company so they don’t go against Shari’ah (Bukhari et al. 2013).
B) Corporate governance in Sweden

The Swedish CG has been changed so it is adapted to the Swedish community (Jonnergård & Larsson 2007). There were several reasons for this incident. Among other things, thanks to the financial crisis, the confidence towards the economic activities was inadequate (Johanson & Østergren 2010). After this incident, the Swedish community created a CG based on the "comply or explain" code (Johanson & Østergren 2010, p. 531). This was a code that ensured that the companies had some form of self-regulation, the so-called "soft law" (Johanson & Østergren 2010). The Board are the ones who take care of the company and ensure that all laws are followed (Ibid.). The shareholders at the annual general meeting elect the board, and the CEO takes care of the continuous administration where he has a seat in the board, if he so wishes (Ibid.).

C) Corporate Governance in United Kingdom

United Kingdom (UK) uses the common law, which means that the boards are not making the rules themselves: the responsibilities are divided between parts, where self-regulations does exist (Johanson & Østergren 2010). According to the law, having two directors is in order (Ibid). Furthermore, did Johanson and Østergren (2010) mention that unitary boards are used in UK, where the executive and non-executive directors are divided into two groups. The non-executive director takes care of decisions such as strategic and resource (Goh & Lupta 2015), and the executive directors are usually the CEO (Johanson & Østergren 2010). In the boards, the chairman is usually not the CEO of the company, which means that the non-executive director regularly becomes the chairman. The board includes lawyers, politicians and accountants as well, where the shareholders are the ones who should be in first priority (Ibid.).

3.2 Banking Governance

The global financial crises have put more interest in CG (Adams & Mehran 2003), more particularly: in banking governance (BG) (Ben Bouheni & Ammi 2015). There are many reasons for why BG is needed. First, there are differences between a bank and other organizations when it comes to governance (De Andres & Valleado 2008; Adams & Mehran 2003). The CG does usually address to companies and not banks, which makes BG necessary, despite the minimal differences (De Andres & Valleado 2008). Since banks have a different character, where problems such as complexity and opaqueness’s are part of the ordinary day, is BG needed in order to manage these differences (Ben Bouheni & Ammi 2015; De Andres & Valleado 2008). Second, BG does have a big impact on the economic development, which includes that earnings and capital are affected (Ben Bouheni & Ammi 2015). It also takes cost of capital, financial institutions, values and other mechanisms in consideration, where
economical growth is a major factor (De Andres & Valleado 2008). Since the banks have big impact in the society (Ben Bouheni & Ammi 2015), where they intend to be a company’s most important financial source (Ben Bouheni et al. 2016), do BG have huge influence since CG may encounter a lot of problems which the BG control-mechanisms are capable of managing (Ben Bouheni & Ammi 2015). Thanks to the regulations within banks may the financial performances be used correctly since the economy is depended on the performance from the governance (Adams & Mehrani 2003).

This highlights the importance of governance within banks, specifically because no jeopardizing within the economic system shall occur since banks play an important role in the economic system (De Andres & Valleado 2008). This also suggests that poor governance may influence the economic growth badly (Levine 2003), which make governance mechanisms an important part of CG and it also helps investors prevent owners from using profits for their own gain (Haan & Vlahu 2016). Haan and Vlahu (2016) and Ben Bouheni et al. (2016) focused on mechanisms such as the size of the board of directors, ownership and compensation. These mechanisms are vital in order to manage the management, which also became a key mechanism in the banking sector where the board members might decrease the competition and improve the regulations (De Andres & Valleado 2008). These regulations take the forms of laws or guidance (Adams & Mehran 2003).

3.3 The mechanisms in both Islamic and Conventional banks
The mechanisms that are used within an organization are dependent on the performances of the business, where laws and regulations also have a saying (Ben Bouheni et al. 2016).

A) Islamic mechanisms
Islamic and Conventional Banks can use the same mechanisms (Ben Bouheni & Ammi 2015). This means that activities can be funded the Western way, as long as these doesn’t conflict with the regulations that are forbidden by Shari’ah, such as the inclusion of gambling, alcohol or pork (Wan Abdullah et al. 2015). With the help of the Islamic Financial Service Board (IFSB) and the Islamic International Rating Agency (IIRA) do they contribute with supervision toward the banking system, which includes that the regulatory and political institutions complies with the rules of Shari'ah (Ben Bouheni & Ammi 2015). IFSB stands for both the development and oversight of banks and capital markets were these developments should constantly be adapted and follow the principles of Shari'ah (IFSB 2016). IIRA on the other hand takes care of the financial institutions, where they have to follow the principles of Shari’ah (Islamic International Rating Agency n.d). The Islamic banking system has simply created a banking governance to interact with their regulations, where all the mechanisms, structures and control systems follow Shari'ah (Ben Bouheni & Ammi 2015). These Shari’ah
boards are available in all banks, whereby they create rules that have to be followed (Ben Bouheni & Ammi 2015; Mollah & Zaman 2015).

**B) The Riksbank**

The Swedish Central Bank (the Riksbank) is an authority that works under the Swedish parliament (Riksbank 2011). The Riksbank works with monetary policy such as the country’s inflation, interest rate and the value of money (Riksbank 2012a). It also works toward a high employment rate as well as a stable economy (Riksbank 2012b). The goal is to keep the inflation at 2 % and in order to achieve this, the interest rate is used to make sure that the inflation doesn’t surpass 2 % or end up short of achieving it (Riksbank 2015). The Riksbank is the ones that set the interest rate by using the repo rate, which is the interest rate that other banks are charged for borrowing or depositing money in the Riksbank (Riksbank 2014). When it comes to promoting stability within the economy the Riksbank makes sure that there is a way to safely and efficiently handle payments (Riksbank 2012c). By having the Riksbank manage the stability of the inflation rate, the Riksdag has created a situation where the Executive Board has to focus on long-term decisions in order to keep it stable (Riksbank 2011).

**C) Finansinspektionen**

Finansinspektionen (FI) is Sweden's finance authority, which ensures that the financial system is stable, where the market should be equipped with a system that is working well for every member (Finansinspektionen n.d.a). FI has several functions, including the supervision of the company and giving authorization to companies. Additionally do they comply with the EU-rules within both the financing and regulation sections but also preventing money laundering (Finansinspektionen n.d.b). The operations within FI are controlled by an appropriation from the regulation. This appropriation accounts the objectives that have to be met. There is also a regulation within the FI describing the financial goals that has to be fulfilled, but they also works with a regulation that produce all the responsibilities and tasks that should be commonly to all authorities in the Swedish market (Finansinspektionen n.d.c).

**D) Mechanisms in the UK**

Financial Reporting Council (FRC) is the mechanism in the UK that sets the principles regarding the CG of each organization (Financial Reporting Council 2016). FRC takes care of the quality within the CG, the Stewardship Code and the standards within their accounting and auditing (Ibid.). With this said are they responsible for effective standards that can be followed by all organizations and their shareholders (FRC n.d). FRC doesn’t traditionally set any rules, instead do they set principles (Financial Reporting Council 2016) that listed companies shall follow by reporting how they did apply these CG principles (FRC n.d).
Additionally will these reports show the shareholders how the organizations are influenced and why they are structured in a particular way (Financial Reporting Council 2016). Furthermore are these principles the Code’s central and that’s why they shall be reported: to answer the questions on how the board actually do function toward fulfilling these standards (Ibid.). The Central bank in UK is called the Bank of England and just as the Riksbank do they maintain the country’s monetary stability (Bank of England n.d.a). Their Central bank also takes care of the financial stability, which is a contradiction to Sweden where the FI takes care of the financial aspects (Ibid.). Additionally is the Bank of England owned by the Government (Bank of England n.d.b).

3.4 Financial Products

Islamic financial business exists in more than 50 countries around the world, not just in the Middle East and North Africa but also in the USA, Australia and parts of Europe (Tatiana et al 2015). The total number of Islamic financial institutions exceeded 300 in 2015 and the number is rising. One of the reasons would be that the Muslim population is increasing in most countries, creating an opportunity for financial institutions to reach new customers by providing financial products that they’re likely to purchase (Ibid.). Still, this increase doesn’t stand for the gap that still remains, where there’s a lack of protection toward the investors. Additionally is there a low liquidity, which is a concern (Zulkhibri 2015). Riba is the most important difference from Western economy and within Riba, prohibition of interest is seen in areas such as finance and obligations (Lewis 2001; Mollah & Zaman 2015). This means that they have other financial products that they use to compensate the interest.

A) Profit- and loss sharing

Islamic banks offer Profit - and loss sharing (PLS) services which is different from the Conventional banking system (Wan Abdullah et al. 2015; Maurer 2002). Mudarabah is one alternative of PLS, where it’s an agreement between the investors and the investment manager working for the bank. Its main use is for short and medium-term investment ventures (Tatiana et al. 2015; Ben Bouheni et al. 2016). The manager is called mudarib and the investor is called Rabb al-mal (Wan Abdullah et al. 2015; Maurer 2002). When the project is completed the mudarib will return the entire investment including the Rabb al-mals part of the profits back (Wan Abdullah et al. 2015). Both parties agree upon earnings before any contract is signed. These kinds of agreements are meant to give capital from owners without the ability or chance to carry out their own business project to finance someone who can (Ibid.). Another form of PLS is Musharaka. Musharaka is used for long-term investments (Tatiana et al. 2015; Ben Bouheni et al. 2016), where the partnership is a way for the investor and the bank to create a joint project where both parties invest capital. The splitting of any profits or losses is
agreed upon before the partnership agreement is signed (Tatiana et al. 2015), which means that it’s a financial term used to share the participation between parts (Ben Bouheni et al. 2016).

B) Other financial products
Islamic banks do also provide other financial products. In many cases does the Islamic products use structures that resembles interests but technically isn’t interest. Murabahah and Ijara are two examples of this where instead of interest, fees and mark-up is used (Beck et al. 2013). Murabahah is the sale of goods with a mark-up, which means that the buyer informs the bank of what product they should buy (Kabir et al. 2015). After the bank has bought the product do they sell it back to the buyer for the original price plus a mark-up, which is the bank’s profit margin. The buyer will pay for the purchase in instalments similar to a loan, only that there is no interest just the mark-up fee the bank requires for having purchased the product for the buyer (Ibid.). Ijara, or leasing, is when the bank purchases the equipment and machines that the customer requires and then the bank lease it to the customer for an agreed upon fee and time (Tatiana et al. 2015).

C) Conventional financial products
Conventional banks offer financial products such as personal loans, credit and debit cards, but also mortgages for the purchase of a house or business. The banks make their money by having their customers pay an interest rate on their loans (Carmichael & Handford 2015). The interest rate can be fixed which means that it will remain the same for the duration of the loan making the borrower’s payments the same as well, which helps when budgeting. The interest rate can also be floating which means that it moves with the market, where it can both increase and decrease depending on the market (Ibid.).

3.5 Summary of the theoretical framework
The theoretical framework shows that a bank’s CG is widely different in application comparing to other organizations. It’s because banks need higher and deeper knowledge of governance issues and systems, which takes their services into consideration. This also shows that Conventional and Islamic banking systems differ. Islamic banks are mainly religiously bounded, which is a contradiction to the Conventional systems. In general is the reason because Islamic banking services don’t have any interest rate that affects their services. In other words, to operate an Islamic bank in the Conventional system do they require different regulations and banking governance. The theory showed that CG within a country has to follow certain regulations and laws, which make the CG within Conventional and Islamic banks similar, but yet different (Ben Bouheni et al. 2016). Different tools and mechanisms are used to reach for effectiveness, where internal and external mechanisms find agreeable
solutions for the cooperation between all stakeholders (Sebhatu & Pei-lin 2015). A bank’s CG differs from other organizations since they have another type of structures and offerings (Haan & Vlahu 2016). What make banks different from other types of organizations are their structures, since they hold peoples money in their hands which makes their regulations more heavily (Ibid.), where the members of the board have to have experience and knowledge to eliminate the risks that may occur in a bank (Lin & Chang 2016). The CG within Islamic banks differs from the CG within Conventional banks, where the Islamic banks follow the rules of Shari’ah (Bukhari et al. 2013). The Conventional banks in Sweden have to follow the rules from the Riksbank and FI (Riksbank 2011a; Finansinspektionen n.d.b) and the Conventional banks in UK have to follow the rules that are set by the FRC and the Bank of England (FRC n.d; Bank of England n.d.a). Different products are offered: the Conventional banks do offer interests (Ben Bouheni & Ammi 2015) and the Islamic banks offer other financial products, such as mudarabah and ijarah since interests is forbidden (Ibrahim 2015; Lewis 2001; Napier & Haniffa 2013). Despite this, the CG within Islamic banks and Conventional banks are similar to one another, where they both works against agency problems that may occur and toward protection of all stakeholders, where agreement have to be achieved (Ben Bouheni et al. 2016).
4. EMPIRICAL STUDY

Chapter four will give an insight on the collected primary data. This data will show the reader the findings from Conventional banks in Sweden and Islamic banks in UK. Institute Z will give their point of view and Bo Franzén will give us his point of view since he has been collaborating with the Riksbank. Before diving into the primary data and the findings, an introduction of Conventional banks in Sweden, JAK and Islamic banks in UK will be given.

4.1 Background

A) Conventional banks in Sweden

Banks is seen as one of the most important organizations within the financial section in Sweden, where they are an importance toward the economic welfare (Svenska Bankföreningen n.d.). They are a part of the effective system since the financing, savings, payments and loans stand for the prosperity of the country, where the level of employment is higher than it would be without these systems. Banks do have many important tasks but the most important ones are offering loans and accept savings in all forms (Ibid.). Additionally does all banks major task stand for deposits and credits, where receiving deposits and providing credits are in order (Svenska bankföreningen 2015a). The deposits and credits are dependent on the interest rate. Additionally do the risks and funding costs influence the interest as well (Ibid.).

The author made three interviews from Sweden. Two of the interviews were made through phone-calls and one was made face-to-face. The first respondent from Sweden, Mister A, works in one of the banks in Sweden where he have a high position within the bank: He’s the bank’s Boards secretary. Mister A is therefore responsible for the CG in Bank A, where he takes care of issues regarding in which way they guide their shareholders through the preparation toward elections, elections of Directors, election of auditors, and which policy’s and regulations that are being set by the Board. The second respondent from Sweden is Ann-Marie Franklin who works in JAK Medlemsbank (JAK), where she’s the Member manager. The last respondent from Sweden is Bo Franzén, who is a researcher and professor at Stockholm University. He has been collaborating with the Riksbank.

B) JAK

Jord Arbete Kapital (JAK) is Sweden's only interest-free bank, which cannot be considered as a Conventional bank since it doesn’t service with interest. The members are the people who stand for both deposits and lending (JAK medlemsbank n.d.b.). “JAK does not charge any interest on loans or savings; only a self-cost administration fee is taken for loans” (Anielski
Additionally is JAK a proof that the Swedish banks don’t have to have interest to operate as a bank on the market (JAK medlemsbank n.d.a.). Furthermore do JAK have the same guarantees and requirements that the other banks in Sweden do (JAK medlemsbank n.d.b.). What differ JAK from Islamic banks is that they don’t see themselves as religiously bounded (Ibid.).

C) Islamic banks in UK
Since the last financial crises, the World Trade Organization (WTO) has informed banks to cooperate with all banks, including Islamic banks (Karbari et al. 2004). This has lead to that many non-Islamic countries started to give Islamic financial services or established Islamic banks in their country (Solé 2007). Banks such as Royal Bank of Scotland and HSBC Holdings started go give Islamic financial products in different forms (Reuters, 2009; Financial times, 2012), since they realized the profits it gives by entering in new markets (Karbari et al. 2004). However are the Islamic banks the only banks that operate in compliance to the regulations from Shari’ah in the UK (Ibid.). According to Karbari et al. (2006) may London be the city where wealthy Muslims from the Middle East invest their monetary terms since London stands for six Islamic banks (Islamic Finance n.d).

The author made three interviews from the UK. Two of the interviews were made thru phone-calls and one was made face-to-face. The respondents from UK are Mister X, Mister Y and Mister Z, where the first two works in Islamic banks. They are qualified lawyers making sure that the laws and regulations are being followed, both from the SSB and the UK. The last respondent from UK does work in an institute that works with Shari’ah regulations.

4.2 Findings
The themes below are founded in chapter two, were the author divided the interviews into themes. This was done by transcribing the collected data, but also by coding, categorizing and put the categories into themes. These themes made it easier for the author to discuss the findings, since there were patterns within the themes. There are three themes in both the “findings from Sweden” and “findings from UK”, were they have same themes: Theme 1: Corporate governance – How is the banking system structured? Theme 2: Interest rate – important or unimportant? Theme 3: Islamic banks in Sweden – possible or not? The focus is within the Swedish market.
A) Findings from Sweden

Theme 1: Corporate Governance - How is the banking system structured?

The question of how their banking systems is built gave similar answers, where Mister A, Bo Franzén and Ann-Marie Franklin were referring to that all banks basically follows a similar system, in which the CG must follow certain laws. Mister A further referred to the Aktiebolagslagen (ABL), who he mentioned set the rules for the board’s roles, as well as the CEOs: 

"... With some minor deviations, the big Swedish companies basically applies a similar CG and within the CG-model, that has a background in both the Corporate Governance Code and the ABL ... So you could say that ABL has the power; which questions do determine the Board or what questions will determine the CEO and what issues need to be sent up to the General Meeting". What differ JAK from the other Swedish banks when it comes to their CG is that their members are the highest decision-making body, which will in turn decide the Board members.

CG includes both laws and regulations, where the FI and the Riksbank has an influence. The FI have a greater impact on banks when it comes to CG. Mister A, Bo Franzén and Ann-Marie Franklin are aware of that the FI has the greater policymaking regarding the CG, while the Riksbank is responsible for the policymaking concerning the interest rate. FI is the banks' decision-making body, where their main task is to ensure that all banks comply with the rules that are set. JAK's regulation differs since they don’t use the interest rate. FI have decided that JAK have a number of rules that must be met. "FI are those who have the oversight that will ensure that we follow all the rules and all that. Just like all other banks, but it's far more rules and stricter requirements ... that we must adapt ourselves to..." said JAK's respondent Ann-Marie Franklin. Since JAK is interest-free do they need more rules to be able to adapt into the Swedish market. Furthermore doesn’t JAK have any relation to the Riksbank since they don’t have interests and therefore don’t need to rely on the monetary policy. The result is that JAK isn’t allowed to borrow money from the Riksbank. Mister A proved that the Riksbank is responsible for the control and supervision of loans by saying that they are the body that sets the interest rate. This gives the Riksbank an impact on the Bank's activities but no impact when it comes to the CG. Mister A said: 

"... Having said that, one should of course remember that the Riksbank in its operations, both in terms of monitoring but also having control on our loans and setting the rates ... they care more about our business than our corporate governance". Furthermore, when it was spoken about BG didn’t the respondents had any knowledge of the term. This may be a proof toward that the Swedish market aren’t familiar with BG since they use the term CG instead, in both the market and within the FI.
When questions about how the Islamic banks were structured occurred, did the interviewer get one answer. The answer came from Ann-Marie Franklin who said: “...there are other financial services that Islamic banks use. They have the PLS system for example ...”. Mister A and Bo Franzén had suspicions that the Islamic banks regulations followed Islam, but no more than that. Mister A added that the religious aspects would never be able to function in today's businesses. This was said because he thought that different people interpret the Bible or the Kur’an differently: "... to even include religious aspects, where we in some sense also should consider what is right or correct based on a religious aspect, or a belief in God, makes it very hard to believe that it would add anything. I cannot believe that it would create a greater efficiency because what religion wants or what a God or a prophet want's very much differs for various scholarly interpretations ... ". This may be proof of that the Swedish market doesn’t have enough knowledge on how the Islamic banking systems are structured or how their society function with religious beliefs.

Theme 2: Interest rate - important or unimportant?

One question asked during the interview was how respondents thought the Islamic banks were structured since they don’t use interests. Ann-Marie Franklin argued that the interest rate made the rich richer and the less wealthy poorer. She further argued that it’s forbidden in both Kur'an and the Bible to win money out of money, which is a negative effect that JAK wants to highlight. Another respondent, Bo Franzén, confirmed this by uttering: "Aristotle saw that it was unnatural to take interest when the money cannot reproduce ... ". Despite this did Bo Franzén see interests as a necessity and therefore said "... what many people in the world don’t understand is how valuable the credit really is, that we live in a world where credit is just floating back and forth all the time...". He didn’t understand why a person could get paid by his or hers services, but the bank cannot charge to keep peoples money. He took this further and said that "... In general, as a title, I would say that it is just about calling interest rate for something else. But things cost. Hypothetically, buying a house, where there is a repayment plan because the family, or the bank buys the house for them because they are the legal owner until the loan is repaid, the family needs to pay rent and it's just that you call it something else". Mister A agreed with the statement above by saying: "They use leasing when the bank buys a product and then leases it out to the customer then pays for it plus they mark-up as an addition of it ... if you then structure it in a different way and call it something else. Is it not basically the same thing?" Mister A also mentioned that the interest rate is important when it comes to deposits and loans, where percentages can have a large impact. This is proof of that the respondents didn’t have the knowledge on which financial products the Islamic banks used instead of interests, excluded Ann-Marie Franklin, who knew that Islamic banks used PLS.
Theme 3: Islamic banks in Sweden - Possible or not?

The question regarding if the Swedish market will change after establishing an Islamic bank there gave similar answers where the respondents replied in general that if JAK could establish in Sweden, Islamic banks could do the same. They also agreed on that the market wouldn’t be affected because JAK is already established and serving without interest. What could be overlooked is the Arabic world, according to Bo Franzén, where they have been using this system for a long time and have all the knowledge needed. The respondents further agreed to that JAK would become a role model for future Islamic banks since JAK has adapted itself to the Swedish system by receiving permission from the government, where certain criteria had to be met: "... its far more rules and stricter requirements ... that we must adapt ourselves to...". These criteria are the only thing that separates JAK’s regulations from the other banks, which means that they almost have the same rules as any other bank in Sweden, even if they are interest-free.

The future was negative for the Islamic banks in the Swedish market. Mister A was unsure of the future where the only sure thing was that no group would be excluded. He said: "... which way will victor? I do not know, but we will have to relate to it. It is possible that through a subsidiary we will be required to have a similar system, like the one here with JAK ... in a way that we do not exclude large groups in the society ". Bo Franzén claimed that for banks to survive they have to take charge in any possible way and wasn’t sure about Islamic financial product in Sweden: "... you pay a fee instead of interest, but the fee is deductible as if it were interest, no, then I do not understand the point".

B) Findings from UK

Theme 1: Corporate Governance - How is the banking system structured?

As any other bank in the UK does the Islamic banks have to follow the laws and regulations coming from the government since they are established in the UK. Mister Y said: “...We have regulations that we have to follow, or requirements really. And this is exactly as any other bank in the UK”. What differ Islamic banks from conventional banks in UK is that they have some differentiations regarding their CG. Islamic banks in UK do follow the rules of Shari’ah, which means that they follow extra rules and regulations given from the SSB. Practically do Islamic banks have the same CG like any other bank in UK, except the fact that they have one extra regulator: the SSB who makes sure that they follow the principles of Shari’ah.
The respondents were familiar with the term “Banking Governance”, which was a differentiation from the Swedish respondents. How does the BG affect the banks was a question that brought up the crash in 2008 where the rules within banks have been tighten up after the crash. This meant that the regulations have made it harder to do business quickly. Mister X said: “The last few years have been more and more regulated on banks in London. I think the impact on that is basically harder to do business quickly. It makes it more difficult to do business ...”. Mister Z said that there was a major shift within the governance systems, including the banks, where they changed from a micro-point-of-view to a macro-point-of-view. These regulations changed the banks way of doing business, where the liquidity regulations were one of them. This is a clarification toward the Englishmen knowing the term BG. One reason toward why UK are familiar with the term and Sweden aren’t may be that UK has a more clearly system, where the term BG is more used. After the crash in 2008, the governance focus was on banks and their systems such as their governance, where the result was that the banks got harder rules, which also lead to that BG being a term used more frequently in UK, since they were a big part of the crash.

Theme 2: Interest rate - important or unimportant?

Why Islamic banks don’t use interests is answered by the prohibition from the Kur’an. Mister X added that Muhammad’s sayings and actions also forbid interest in both receiving and charging. He continued with an example on murabahah, which is a financial term used in Islamic countries instead of interests. Murabahah means a mark-up contract between two parts. An example was given from Mister X, which was about metal, where he at the end said that they could raise “tax” from murabahah, since they were selling metal. What the Kur’an and their prophet said is that a person cannot take money out of money, which means that it doesn’t include taking money out of metal. The point with the example was to give an insight on how murabahah works, where the bank did business with metal, which also meant that they could raise a tax there. Ijarah is another financial service they use instead of interests. These two examples, Murabahah and Ijarah, were given by Mister X and Mister Y to show that UK has expanded their laws to attract Islamic finance to UK. Further, did Mister Y confirm this statement by saying: “… since they have changed some of the rules etc, we have exceptions to not use interests. For example Ijarah and Murabahah ... these are the alternatives we have, since interests is forbidden”. Mister Z also confirmed the use of leasing within Islamic banks in UK. The result of this is that the Islamic banks cannot take loans from the Central Bank since they are forbidden to give money on money, which means that UK
have been expanding their rules so that Islamic banks in UK can use their own types of financial instruments instead of interest rates.

**Theme 3: Islamic banks in Sweden - Possible or not?**

The question about why the respondent thought the Islamic banks have managed to establish in UK but not in Sweden gave answers who mentioned that UK is a big financial centre and therefore attracted wealthy people from the Middle East. This was stated by Mister X who added: “...Islamic banks can’t function in an environment where the regulations is to difficult ... the UK has taken steps to tremens its regulations and laws to make it easier for Islamic banks to develop in the UK ... So, I think, that it really comes down to political well for anything to happen ...” Mister X also said that the political aspect does have a saying, where Islamic banks can’t develop or function in environments with too hard regulations and laws. Mister Y, who said that Islamic banks helped UK during their hard time after the crash in 2008, clarified this by saying: “…the UK has change some regulations so that we can follow the rules of Shari’ah. That’s something that other countries can do, if they want to develop Islamic banks there”. Mister Z confirmed this by mentioning that the Swedish market need to have a form of appetite on the Islamic financial products in order to develop in the market. He added: “… is not going to be that easy to convince the people to change their mindset from a debt-based structure to an asset and equity-based structure. There’s a lot of work to be done: create a market, creating awareness, competitive etc ...”. These statements prove that Sweden has to change their regulations if they want an Islamic bank in their market.

The question about if Islamic banking will be an alternative everywhere gave sceptical answers where the respondents weren’t sure about the future. Mister X added: “...I think what’s happen is basically movements from 2010, laws where being paused to interpret Islamic finance but now it has pretty much stopped...” He also claimed that one argument toward this is that they’re less of a priority since Conventional banks do have an advantage in the market worldwide, which was confirmed by Mister Z. Additionally did Mister X and Mister Z say that the Islamic banks in UK are small, which may be a reason toward not being an alternative. Mister Z took this further by mentioning that Islamic banks won’t be an alternative since the appetite is small. He further said: “... I think the ways are going that the Islamic bank will be the follower and not the leader ...”. This was stated because the Islamic banks are poor at innovative products. Mister Y took another turn, where he said that the future is dynamic but that the world is turning atheistic, which means that the Islamic banking systems will be less of a priority. Additionally, did Mister Y say that both the Islamic banks and the Swedish government have to be willing to expand their regulations so Islamic banks
can have the ability to establish there. He also understood that it’s hard for a country to change their regulations toward fulfilling something that they are unfamiliar with, if there aren’t any requirements, which meant that even he understood that a country needed to have big requirements regarding this area.

4.3 Summary of the empirical study

The CG in Sweden does include both laws and regulations, where the FI and the Riksbank has an influence. JAK is an interest-free bank in Sweden, which can be compared to Islamic banks in UK. The Islamic banks in UK are interest-free and follow the requirements from SSB, which means that they cannot use the Central Bank in UK, which is one similarity to JAK. Both JAK and Islamic banks have to follow the regulations within the country they are serving, which means that they practically have the same rules as Conventional banks, with minor differences.

When it comes to BG were the Islamic banks familiar with the term, which the Swedish respondents weren’t. One reason toward why UK are familiar with the term and Sweden aren’t may be that the UK has a more clearly system and Sweden a more structured one. After the crash in 2008, the governance put its focus on banks and their systems, such as their governance, where the result was that the banks got harder rules, which also lead to that BG was a term used in UK since they were a big part of the crash. Furthermore, weren’t the respondents from Sweden familiar with the Islamic banking systems, which may be proof of that the Swedish market doesn’t have enough knowledge on how the Islamic banking systems are structured. Table 4.1 shows a cross-case analysis between Conventional respondents in Sweden and respondents with an Islamic point of view in UK. Their answers clearly showed that there’s different knowledge among the respondents, where the respondents from Sweden had similar answers and the respondents from UK had similar answers: Sweden and UK had different answers and therefore different amount of knowledge.

<table>
<thead>
<tr>
<th>THEMES</th>
<th>THEME1: CG - HOW IS THE BANKING SYSTEM STRUCTURED?</th>
<th>THEME 2: INTEREST RATE - IMPORTANT OR UNIMPORTANT?</th>
<th>THEME 3: ISLAMIC BANKS IN SWEDEN - POSSIBLE OR NOT?</th>
</tr>
</thead>
<tbody>
<tr>
<td>SWEDISH BANKS</td>
<td>SIMILAR SYSTEM FOR ALL BANKS, WHERE FI AND THE RIKSBANK SETS THE RULES FOR THE BANKS. NOT FAMILIAR WITH THE TERM BANKING GOVERNANCE.</td>
<td>INTEREST RATE IS SEEN DIFFERENTLY. THE KUR'AN FORBIDS INTERESTS.</td>
<td>AN ISLAMIC BANK IN SWEDEN WOULDN'T CHANGE THE SWEDISH MARKET SINCE JAK HAS ESTABLISHED HERE. ISLAMIC BANKS IN SWEDEN NEGATIVE.</td>
</tr>
</tbody>
</table>
Table 4.1 shows the differences within the responses from UK and Sweden.

All the respondents were unified with that the future for Islamic banks in Sweden were negative. The reason was that the Islamic banks are less of a priority. The respondents were negative since the government have to expand some regulations so that the Islamic banks can follow the rules of Shari’ah. This shows that all the respondents thought that Islamic banking doesn’t seem to have a future in the Swedish market, despite the fact that the market does have JAK.
5. DISCUSSION

Chapter five will give a discussion from the collected data in chapter four and the theory background from chapter three. The three research questions from chapter one will be answered by analysing the theory together with the collected results from the respondents from Sweden and UK.

5.1 Conventional and Islamic banking systems – Corporate Governance and Banking Governance

The purpose with the first research question was to see how the differences between Conventional and Islamic banks influence the CG or BG of each system. The result showed that Conventional banks in Sweden follow the rules and regulations from the Riksbank and FI, where banks do follow similar systems since the CG within banks have certain laws and regulations coming from the government that has to be followed. A potential explanation toward this result may be that FI makes sure that the corporate system is working for every organization (Finansinspektionen n.d.a). The Swedish Central Bank works with the country’s interest rate (Riksbank 2012a), which support that the FI has a bigger influence regarding CG and the Riksbank have a bigger impact regarding interests. FI is also the body that have been given JAK a number of rules that must be met so that they can adapt themselves into the Swedish market, despite the fact that they are interest-free. JAK can be compared to the Islamic banks in UK, where both have specific rules from the government that they must follow. Another similarity between them is that none of them have any relation to the country’s Central Bank since they are interest-free, which also means that they aren’t allowed to borrow money from the Central Bank. This is consistent to the answers from both the respondents from Islamic banks in UK and the respondent from JAK.

What differ Islamic banks from Conventional banks is that they have to follow the requirements from the SSB, which is the body that makes sure that the Islamic banks do follow the rules of Shari’ah (Buhari et al. 2013). The Islamic banks can use the same regulations as Conventional banks, as long as they fulfill the requirements from Shari’ah (Wan Abdullah et al. 2015). This is a clarification to that Islamic banks can be applied in any other country, despite their lack of using interest. The SSB have been created so that the Islamic banks do have mechanisms and structures that follow the requirements from Shari’ah (Ben Bouheni & Ammi 2015), which means that the SSB is like a framework in Islamic countries (Lewis 2001). The respondents from UK said that the IFSB and the IIRA doesn’t have any influence toward their systems, which is a contradiction toward the theoretical background who says that both the IFSB and IIRA contribute with supervision to their
banking systems (IFSB 2016; Islamic International Rating Agency n.d). A reason to this contradiction may be that both the IFSB and IIRA are settled in the Middle East and giving orders to big banks, which may also be a conclusion toward why Islamic banks in UK only following the requirements set by the SSB, since they’re very small, which is clarified by the respondents.

Another differentiation between Conventional and Islamic banks that affects the CG and BG is the interest rate, where the Islamic banks forbid interests in both receiving and charging (Lewis 2001; Napier & Haniffa 2013). The respondents from UK answered that the Kur’an forbids interest, which means that they have other financial products that are used instead to fulfill their CG. Beck et al. (2013) supported this by saying that Islamic banks do use fees and payment structures instead of interest. Murabahah and Ijarah was given as two examples, where the first mentioned one is a mark-up and the second one is a fee (Ibid.), which is supported by the respondents from UK as well. Mister X added that Murabahah means taking a mark-up on something that is not money, for example metal. This makes it right to take money out of metal, which is almost like taking money out of money but not entirely, since they take money out of anything but money. At the same time does the interests influence the CG of each system since it is a necessity within the Conventional countries, where Bo Franzén said that the credit is more important than people may think, since it floats back and forth all the time. Additionally, did Mister A mention that interests are important regarding deposits and loans, where one percentage in increase can have a large impact. The Conventional banks do offer financial products such as loans, where these banks make their money by charging interest (Carmichael & Handford 2014), which is a clarification toward the need of interest within Conventional banks to survive in the market. This can be supported by Svenska bankföreningen (n.d) who mentions that a banks most important task is to offer loans. Both JAK and Islamic banks that do survive without interest don’t agree with this statement. A potential explanation may be that they have other financial products that are used instead, which cannot be accepted in the same amount as interest will by Conventional banks. This since they don’t understand why Islamic banks do have other financial terms that will ultimately produce the same results as interest will. Two respondents from Sweden may be examples of not having the knowledge required on Islamic banking systems and their way of doing business and the respondents from UK stand for the Islamic way of thinking, where they have the knowledge needed to understand that there’s other financial products that can be used instead of interests in other banking systems. A potential explanation to this may be that the regulations in Conventional banks are regulated this way, not giving information on other banking systems, just their own. A conclusion is that the different banking system doesn’t accept the other banking systems in the same amount as their own banking systems.
since they don’t agree with their way of thinking or their way of doing business. This influences the CG and BG. Another potential explanation may be that the respondents from Sweden are used to interests and mortgages while the respondents from UK works in Islamic banks or Institutes within a country that accept interest, which intend to contribute to these answers since they accept both banking systems way of doing business. This can be explained by mentioning that the FI and the Riksbank sets the rules in Sweden that has to be followed, which also may be a reason toward the banks thinking it’s natural to take interest because the Riksbank does. Additionally is this the way the Swedish banks are both working and ruled with, which can be strengthening by Svenska bankföreningen (n.d) who says that a banks most important task is to offer loans. One reason may also be that Sweden has been using this system for a long time and it’s a working system for the market, which makes this a system their market may be comfortable with. A third explanation toward this statements may be that the respondents from Sweden haven’t been working with Islamic banks, which means that they haven’t come across their CG or BG, even if JAK is an interest-free bank in Sweden. Why JAK haven’t had a progress in Sweden may be that the Swedish people do take loans from Conventional banks instead, where a potential reason could be that they feel more comfortable this way since their parents and grandparents used the interest-system. This may be a clarification toward the importance of interests in Sweden and why their regulations are the way it is.

Furthermore were the respondents from Islamic banks in UK familiar with the term BG and the Swedish respondents weren’t. One potential explanation why the respondents from UK are familiar with the term and the respondents from Sweden aren’t may be within their systems. Previous research by Mallin (2013) and Ben Bouheni et al. (2016) said that the CG is the term that does take internal aspects, such as board structure and internal control, but also external aspects, such as the organizations relationship with all the stakeholders into consideration. Additionally may this be a conclusion toward only using the term CG in Sweden, since the term does show how the organization has to be structured. On the other hand is it obvious for banks in UK to use different systems in comparison to other organizations, since they are structured differently. This can be strengthen by De Andres and Valleado (2008) and Adams and Mehran (2003) who said in their research that a bank is structured differently in comparison to other organizations when it comes to governance. Additionally did De Andres and Valleado (2008) take these statements further by mentioning that CG do usually address to other organizations and not banks. Ben Bouheni and Ammi (2015) further mentioned that BG is necessary since problems within banks will increase the opaqueness, which will be managed by a different corporate system within banks. Another potential explanation toward these results may be the crash in 2008. It made the systems
within banks in UK more clearly and harder regulated which also meant that the word BG was used more frequently since UK was a big part of the crash. A third potential explanation toward why Sweden aren’t familiar with the system may be because the banks do use the word “Corporate Governance” in their annual report (Bolagsstyrningsrapport 2006; årsredovisning 2015), which may be a clarification toward them not knowing the meaning of the term BG.

5.2 Swedish and UK banking systems perception of Islamic banking systems

The purpose with the second research question was to see how the Swedish and UK banking systems do perceive the Islamic banking products. The result showed that UK is a big financial centre, which has attracted wealthy people from Middle East after the crash in 2008 (Karbari et al. 2007). This have led to that the UK expanded their regulations and laws so that Islamic banks could establish there, which is a clarification toward the political aspects have a saying. They extended their regulations so that the Islamic banks could follow the rules of Shari’ah and the UK governance at the same time (Solé 2007). This can be supported by the respondents from UK, who said that the Islamic banks does have exceptions, which includes their acceptance from the government to not use interests. They also said that the Islamic banks helped UK during the financial crises by investing in the country which also led to that UK developed Islamic banks and Islamic financial products in their markets. This clarifies that a country have to accept to extend their rules so that Islamic banks could establish there since Islamic banks can’t develop in countries with hard regulations, which were a statement by all the respondents from UK. This can also be strengthening by Tatiana et al. (2015) who mentioned that the Islamic financial products are likely to purchase within a non-Islamic country, as long as they don’t go against Shari’ah. These statements proved that Sweden has to expand their regulations if they want an Islamic bank in their market.

Why Islamic banks haven’t been established in Sweden yet may be answered with the response that the Swedish government aren’t giving the Swedish people the knowledge needed to be willing to request an Islamic bank in their market. Mister A and Bo Franzén are two examples in Sweden where they don’t have the fully knowledge needed on how Islamic banks were structured, which can be a conclusion toward the Swedish system not giving the population the information on other financial services or other types of banking systems and regulations. This may also be an explanation toward not opening an Islamic bank in the Swedish markets, since lack of knowledge occurred regarding this area. Ann-Marie Franklin was the only one with bigger knowledge regarding this area and she’s working in JAK, the only interest-free bank in Sweden. This shows that people who work within the Conventional market may be missing on the knowledge needed regarding Islamic banks and their systems,
which also may be a reason for them not understanding why the Islamic banks uses other types of financial products, since they thought that it all, at the end, would give the same result as interest does. This may also be a reason toward having a sceptical future about Islamic banks in Sweden, since they may be missing on the knowledge, where the government and system may be the reason for this result.

The respondents from both Sweden and UK agreed on that the Islamic banks are less of a priority. One potential reason may be that the Swedish markets are used to do business with interests since they are regulated this way (Carmichael & Handford 2014). The respondents from UK understood that it’s hard for a country to change their regulations toward fulfilling something that they are unfamiliar with, which meant that they understood that a country need to have big requirements. The respondents from Sweden, where Mister A added that no group shall be excluded, supported this, which means that people need to require Islamic banking systems in Sweden for the government to take it into consideration.

5.3 The CG and BG systems within Conventional banks affection of the implementation of Islamic financial products.

The purpose with the third research question was to see how the CG and BG systems within Conventional banks affect the implementation of Islamic financial products in Sweden and UK. The FI affect the CG in Sweden. Additionally is the CG in Sweden affected by the Riksbank, which is a clarification of the fact that Sweden is dependent on interests, where their Central bank, the Riksbank, uses it in their systems and services. This may be a reason to why JAK doesn’t have great market shares. The banking structure in Sweden is built by using interests, which may be one reason why the request around the Islamic bank is small in Sweden and within interests very big. Svenska bankföreningen (n.d) proved this by mentioning that a banks most important task is to offer loans. Bo Franzén also proved this by mentioning that a renovation includes interests since there are a big amount of money, which cannot be paid at once. What the Swedish banks and the Swedish government need to do is to alleviate some of the hard structure of the banks. In UK does the FRC take care of aspects regarding the organizations CG, and their Central bank is the ones taking care of the monetary policy as well as the financial stability. Despite these regulations did the UK develop Islamic banks in their markets, even if they’re a country that’s dominating by Conventional banks. The respondents from the UK and Solé (2007) evidenced this by mentioning that the UK expanded their systems and regulations to develop Islamic banks in their markets. This is a clarification toward the government being in charge and them being the ones that can expand the system within banks.
JAK does exist and what may be said is that the Swedish population must become aware of JAK and Islamic banks since this is something that the Swedish people may not have a big knowledge of. JAK may be a starter toward the establishment of the Islamic banks in Sweden. As a conclusion did the respondents’ answers show that the CG in Sweden is tightly regulated but since JAK have managed to establish in Sweden, may Islamic banks do the same since both exclude interests within their services. The UK made it work and they are a country that mostly uses the Conventional system. Karbari et al. (2004) supported this by saying that all banks need to cooperate with one another, including the Islamic banks. What should be taken into consideration is the knowledge within this area, where the Islamic bank will only be able to develop in Sweden when the knowledge around these areas are increasing, which will increase the demand, and this will, as a result, lead to that Sweden will lighten their CG structures. It all have to begin with the government giving the populations the knowledge needed and end with the government lighten up their regulations for other banking systems to have the possibility to develop there.
6. CONCLUSION

Chapter six is the last chapter of this thesis. This chapter will offer the conclusion of the paper, where the aim and objective of this thesis will be answered with the findings from the empirical study from chapter four. Implications and further researches will also be given.

The relationship between CG and BC in Conventional and Islamic banking systems has an impact in the way different types of banks operate. Identifying the Conventional and Islamic banks differences and assessing on how the Corporate Governance and Banking Governance do operate solves the complexity in the system. Based on the findings in this thesis, the Riksbank and the FI could influence the CG implementation within Swedish banks by employing extra banking governance mechanisms. The Islamic banks in the UK are supported by the banking regulations that have been implemented upon the UK CG Code and the SSB. In UK they extended their regulations and mechanisms to have a holistic approach, where Islamic banks are operating. Countries that are applying the Conventional system need to expand their regulations and mechanisms so that other systems could operate without a need for change in their own systems. This means that the Conventional banks in Sweden need to consider of having a wider regulation; where their system could expand by having extra services, which includes offering other financial services. This would lead to implementing Islamic financial products within the Swedish markets, as well as increasing of the knowledge within the Islamic banking system. UK should also be taken into consideration since they are further developed than Sweden is considering these areas. The Swedish respondents weren’t familiar with the term BG, which the respondents from UK were. Since the aim of this thesis was to understand the relationship between CG and BG in Conventional and Islamic banking systems did this thesis show that the Swedish banks need to consider a change in their annual reports from CG to BG and by doing this they also need to learn more about the difference between CG and BG systems as well. It turned out that we have a long way to go but this doesn’t mean that we don’t have the possibility to learn the differences between Islamic and Conventional banking systems and the differences between CG and BG. It simply means that the system choose not to. It’s also important in this thesis to raise some social and managerial implications to expand this conclusion.

Implication

The social implication of the collected result is that there doesn’t seem to be much knowledge regarding Islamic banks in the Swedish market. The respondents only seemed to have knowledge of how their own CG is structured and that both FI and the Riksbank have an influence in the banking systems, where the interest rate is a key part of the bank. One
potential consequence is that Conventional countries have lack of knowledge. Since the Islamic banks have knowledge regarding Conventional bank and their regulations, should the Conventional bank have knowledge of the Islamic banks and their regulations as well.

What Conventional countries can do is to increase their knowledge within this area since banks do have different systems. Furthermore might a Conventional bank do business with an Islamic bank in the future and when this happens do they need to have knowledge regarding Islamic banks and their regulations, but also which financial products that are being used instead of interests. This knowledge can lead toward Sweden and other Conventional countries being able to broaden their point of view and might open the door toward business with Islamic banks and maybe even expand their regulations for an Islamic bank to have the possibility to develop there. Since their CG must be expanded for this to happen did the respondents also mention that the knowledge and demand within this area needs to be increased. The managerial impact, on the other hand, indicates that the Conventional banks in Sweden have to accept that some banking systems are regulated toward not charge or receive interest, which have to be respected since the Islamic banks do accept the Conventional banking systems, such as charging and receive interest. This would increase the knowledge about the differences between the banking systems, as well as they being a bigger part within the financial market. Only then will the relationship between the CG and BG in Conventional and Islamic banking systems be at the best.

**Further research**

Further research on this subject can be to interview people on the lower level in order to find out their knowledge regarding subjects such as CG, BG, financial instruments, interests and regulations. Another further research may be to collect data from Islamic countries; this to see how the Conventional banks within Islamic countries have implemented themselves in their systems and to see which regulations they have to follow, according to their CG. A third further research may be to collect data from the Swedish people to see if there’s a need and big request for establishing an Islamic bank in Sweden.
7. REFERENCES


Financial times (2012). *HSBC’s Islamic closure highlight dilemma*. https://www.ft.com/content/bdb5f212-0f1c-11e2-9343-00144feabdc0 [2017-01-09]


APPENDIX 1

INTERVIEW-GUIDE SWEDEN:

OPENING QUESTIONS:

• Can you tell me a bit about your background / work experience?
• How would you describe your bank?

THE CURRENT SITUATION:

• Corporate Governance (CG) is an important part of any organization, how is your banks CG structured?
• How do you think your system (corporate governance) are affected by the Central Bank (Riksbanken) and Financial Supervision
• What do you think may differ from the Islamic CG?
• Are You familiar with the term banking governance? If yes, how do you think banking governance generally affect banks?
• Do you think interest rate has a big impact within banks, since Islamic banks are doing fine without it?
• How do you think Islam sees the interest rate?
• How do you think the Swedish society had worked if an Islamic bank was established here?
• What do You think will happen in the future? Will Islamic banking be an alternative to conventional banking everywhere?

CLOSING QUESTIONS:

• Is there anything Islamic banks/ conventional banks can do in order to bridge the gap between the two?
• Is there anything you would like to add?
APPENDIX 2

INTERVIEW-GUIDE UK:

OPENING QUESTIONS:
- Can you tell me a bit about your background / work experience?
- How would you describe your bank?

THE CURRENT SITUATION:
- Corporate Governance (CG) is an important part of any organization, how is your bank's CG structured?
- How do you work with the regulations and frameworks in UK?
- How do you think your bank is affected by the corporate governance of UK?
- How do you think the CG is affected by (the Islamic Financial Service board & Sharia supervisory board/ Sharia supervisory committee)?
- How is your Corporate Governance different from Conventional banks in UK? How do you work together with UK's Corporate Governance?
- Why do you think you have managed to establish in UK but not in Sweden?
- Why do you not use interest rate when lending/borrowing money? What do you use instead?
- The conventional banking system is used in most countries, even countries that can be considered Islamic, what would it take for Islamic banking to establish itself on markets that previously only have had conventional banking?
- Are you familiar with the term banking governance? If yes, how do you think banking governance generally affect banks?
- What do you think will happen in the future? Will Islamic banking be an alternative to conventional banking everywhere?
- Was it difficult to establish an Islamic bank in the UK?

CLOSING QUESTIONS:
- Is there anything Islamic banks/ conventional banks can do in order to bridge the gap between the two?
- Is there anything you would like to add?
APPENDIX 3
THEMES FROM SWEDISH RESPONDENTS:

A) Theme 1: Corporate Governance – How is the banking system structured?

When it comes to CG there are a number of rules that must be met. The law, more specifically the Aktiebolagslagen (ABL) and the CG Code is the basis for how the banks will be able to set up their CG. The ABL shows both the Board of Directors and the CEOs duties, where the board usually choose a reliable CEO. JAK has certain criteria that distinguish from the other Swedish banks, where their governing body members is the ones that elects the Board, which then selects the CEO, which means that the members are in the top decisions as well. A similarity to the rest of the banks in Sweden is that the Board of Directors in JAK has their tasks and CEO his tasks coming from the law, where the members aren’t allowed to interfere. Even if they depart in some specific points from the rest of the banks, the JAK has permission from the government to exercise its services but they basically follow the same laws and regulations that the rest of the banks in Sweden does, with minor differences.

Finansinspektionen (FI) and the Riksbank will affect the banks in different ways, where the FI is seen as the body that affects the banks when it comes to CG. FI are those who control so that both the rules and requirements are followed: the FI is the ones that have the supervision of the CG within banks. FI is the body that sets out the special requirements that JAK must comply with, which is a clarification that the FI is in charge of issues regarding CG. The Riksbank, on the other hand, has a major impact in areas such as monitoring and checking of lending and that the monetary policy should be kept at 2%, but also within the interest areas: with other words control the economy of the country. This proves that the Riksbank has a significant impact in the interest rate and monetary policy, but not in the banks’ governance. JAK has no direct relation to the Riksbank. This is because they are an interest-free bank and therefore aren’t allowed to take loans at the Riksbank.

When the question “if they knew how Islamic corporate governance was set-up” occurred there were one straight answer coming from Ann-Marie Franklin from JAK Medlemsbank. The others ventured on different notions, but no answers were given from the other respondents. However, one respondent dared to mention that religion has been diffuse and interpreted differently from a person to another, which would make people interpret one word differently. The Kur’an and the Bible can be interpreted in different ways, depending on the persons’ knowledge, which may be an important factor to take into consideration before diving into the religious aspects. A knowledgeable person sees the Kur’an and the Bible from a different perspective, as well as a more religious person will. As a conclusion, aspects such as knowledge, ethnicity, childhood and faith are important about a person's interpretations.
Finally, none of the Swedish respondents had any knowledge surrounding the term banking governance.

**B) Theme 2: Interest rate - important or unimportant?**
The interest rate is seen differently, depending on what business you are in. Do you work within an interest-free bank the interest rate is seen as an unnecessary phenomenon, where the wealthy people will get ever richer, which is a result from taking money out of money. This is something that Islamic banks are against because it is a sin according to their religion to take money out of money. Even JAK stands against this system since they are against the interest rates adverse effects, such as the use of other economic disadvantage, which is something that they want to highlight. Not being able to take money out of money has existed far back in time, before the Bible and Kur’ans time. Both Platon and Aristotle saw money as something that couldn’t reproduce, which looked like something unnatural and therefore the view of interest became the same. However, what confuses this view is that you can charge of anything else except money. For example, why can a kinder garden charge of their service, but a bank not charge to have money lying there. This is something that the respondents don’t understand and this is the reason to why they think it is basically the same thing, just that they have different definitions and roads to getting paid as a bank. They said that they believe that the Islamic banks call interest rate for something else because there will be a mortgage payment on a house that you bought (which belongs to the bank), where the rent is included. This makes the respondents think that it is basically the same as the interest rate, but with a different name. Another respondent strengthened this assertion by saying that they lease a product that they pay additional fee, which is paid: how can this not be seen as interest? There was a discussion on whether the interest rate has a big impact. It has a big impact according to two respondents since a company that has suspicions will ultimately increase their interest rate, which will affect their performance adversely, causing the interest rate as a significant factor. Additionally did two of the respondents think that the world doesn’t really understand the value of interest rate, where everything from renovation to the investment includes interest.

**C) Theme 3: Islamic banks in Sweden – possible or not?**
For the question about “the impact on the Swedish market from an establishment of Islamic banks there” gave particularly the same answer from the respondents, were all were united on that the Swedish market wouldn’t be affected in large numbers since the JAK has been
established and perform their services there. This shows that the JAK could be an marginal phenomenon for the newly established Islamic banks in the Swedish market, where the Swedish market can turn to the JAK and try to learn from their knowledge. Another thing that can be done is that the Swedish market could look at the Arabic world and how their banking system works. How do they charge? A conclusion to this is that the market needs to do their homework before simply establishing an Islamic bank there. The Swedish population should be fully proficient in Islamic banks and their financial services before ventures to establish an Islamic bank here.

Finally weren’t the respondents sure about the future. One respondent didn’t believe that one could use other systems which basically means the same thing as interest, entrusted that they don’t take money in cash but take a fixed cost instead, which he didn’t understand properly and therefore saw negative about the establishment of Islamic banking services in Sweden. All citizens must be taken into consideration were we must have a system that fits in with all the citizens lifestyles and not only meet a group's lifestyle.

APPENDIX 4

THEMES FROM RESPONDENTS IN UK:

Theme 1: Corporate Governance - How is the banking system structured?

As any other bank in UK, the Islamic banks have to follow the laws and regulations coming from the government in any way, since they are established in the UK market. What differ Islamic banks CG from conventional banks CG in UK is that they have some differentiations in some point. First off, Islamic banks in UK do follow the rules of Shari’ah, which means that they follow the extra rules and regulations given from Shari’ah Supervisory Board (SSB). The SSB is an independent body that makes sure that all the Islamic banks do follow the guidelines and the rules that are set by them, since they are one extra regulator and the ones setting the regulations. Second, they also follow the rules from the UK government, since they are established in UK and have to follow their rules, with some exceptions of course. So practically, Islamic banks have exactly the same CG like any other bank in UK, except that they have one extra regulator: SSB, that makes sure that they follow the principles of Shari’ah.
The Islamic banks were familiar with the term “Banking Governance”, which was one differentiation to Swedish banks, since they didn’t have any clue to what the term meant. When the author asked how it affects the banks, they gave practically the answer the author was looking for. After the crash in 2008, the rules within banks have tighten up, which means that the regulations have made it harder to do business quickly. Mister X added that he thinks that the market has been misunderstanding it all and over-react as well. He added that Islamic banks did not have anything to do with the crash; it was the investment banks, which meant that the crash happened from the investment banking side, not Islamic corporate side. This because Islamic banks do follow structures from SSB and the result from this is that they cannot take loans from the Central Bank of UK, since they are forbidden to work with interest rates. Mister Y said that the bank has to follow the regulations and laws, which is a clarification that the UK are familiar with the term BG and they do not confuse it with CG, since they are a bank and bank uses banking governance. Mister Z said that there was a major shift for the hole governance system, including the banks, where they changed from a micro point of view to a macro point of view. This regulations changed the banks way of doing business, where the liquidity regulations were one of them. One reason toward why UK are familiar with the term and Sweden are not may be that the UK has a more clearly system, where the term banking governance is more used. After the crash in 2008, the governance focus and weight was on banks and their systems such as their governance, where the result was that the banks got harder rules, which also lead to that banking governance was a term used in UK, since they were a big part of the crash.

Theme 2: Interest rate - important or unimportant?

Why they don’t use interest is easy, where the respondents answered that the Kur’an forbids it. Mister X added that Muhammad’s sayings and actions also forbidden interest in both receiving and charging it. He continued with an example on murabahah, which is a financial term used in Islamic countries instead of interests. Murabahah means a mark-up contract between two parts. This example he made was about metal, where he at the end said that they could raise “tax”, since they were selling metal. What the Kur’an and their prophet said is that you can’t take money out of money but you can take money out of metal. The point with the example was to give the interviewer a insight on how murabahah works, where the interviewer got an
insight on that the bank did business with metal, which also meant that they could raise a tax there. If it had been money, they could do that, since money out of money is forbidden. Ijarah is another financial service they used instead of interests. Mister X also gave one example on how the Islamic banks deduct taxes. They practically do it by deducting the interest the bank gets, which UK have made so that the Islamic payments are treated the same way as the interest are, which also means that they will get the same benefits. This is two examples was given by the respondents to show that UK have changed their laws to attract Islamic finance to UK. Further, Mister Y confirmed that the Islamic banking systems uses other financial products, such as murabahah and Ijarah, instead of interests. Mister Z confirmed the Islamic banks use of leasing. The result was that the Islamic banks cannot take loans from the Central Bank since they are forbidden to give extra money on money, which means that UK have been changing their rules so that Islamic banks in UK can use their types of financial instruments, instead of interest rates.

Theme 3: Islamic banks in Sweden - Possible or not?
The question about why the respondent think the Islamic banks have managed to established in UK but not in Sweden gave the answer I thought they would give. Mister X said that UK is a big financial centre, which is one of the reasons, This because wealthy people from the Middle East want to establish there since it is a big market. He added that the political aspect do have a saying, where Islamic banks can’t develop or function in environments with too hard regulations and laws. This made UK a good country, since their government changed their regulations so Islamic banks could develop there. Mister Y, who said that Islamic banks helped UK during their hard time after the crash in 2008, can clarify this. Another reason may be that UK changed their regulations so that Islamic banks could establish here which is an indicative since Sweden has to change their regulations if they want an Islamic bank in their market.

For Islamic banks to have the ability to establish in another markets, they must, according to Mister X, fulfil some requirements. First, an Islamic population are needed in the country. These people need to have a presentation toward the government. Second, a political environment is needed, this since the politics need to
accept the presentation from the people. Third, the people need to not be afraid of the word Shari’ah, or Islam for that matter. The people within the country need to know that Islam has approximately the same laws and regulation as the Bible does, which means that the people need to understand what Islam is. By accepting all of them, they ultimately accept other peoples’ religious beliefs. This also means that Muslims can buy a house in Sweden without taking any loans, which is good for their beliefs, since they are Muslims and therefore forbidden to take loans. Mister Y added that Sweden is the ones who also need to make an effort, by being ready to change their rules so that Islamic banks do feel welcome here. Furthermore, Mister Y also mentioned that SSB have to change their rules so that they can adapt better within a country’s government. With this said, both the Islamic banks and the Swedish government have to be willing to change their regulations. He also understood that it is hard for a country to change their regulations toward fulfill something that they are unfamiliar with, if there aren’t any requirements, which meant that even he understood that the country needed to have big requirements regarding this areas. Mister Z confirmed with Mister X by mentioning that the Swedish market need to have a form of appetite on the Islamic financial products, in order to develop in their markets. He added that its hard to develop in a country were they have another way of thinking. For Islamic banks to have the possibility, to change from a debt-based to a equity-based structure will not ne easy, do they need to create a market and awareness of the Islamic culture and lastly, they need to be competitive in the conventional market.

What Islamic banks can do to make this happen is that they can, according to Mister X, be innovative and search toward markets that conventional banks have forgotten, since they all competed in the same markets. After the crash of 2008, the Islamic banks were required and at that time, the competitors were low but since that time, competitors level have increased and the Conventional banks have been the ones taking most of the market. So they practically need to get smarter and find other creative ways to get money. Additionally, as Mister Y said, does the BBB widen their regulations so that they can adapt to other regulations within other banks. Since conventional banks don’t want them in the market, they would probably find different ways to eliminate Islamic banks from the market, so they get more money for themselves. Mister Z said that the conventional banking system have different views
in comparison to the Islamic banking systems, where no matching exist since the conventional banks uses the interests, which is forbidden in the Islamic banking.

Lastly, the question about if Islamic banking will be an alternative everywhere gave sceptical answers, where neither Mister X, Mister Y nor Mister Z weren’t sure about the future. Mister X added that the Islamic banks increased from 2010, where countries developed laws to matches the Islamic banking systems but the last years, this development have stopped. He also said that one argument to this is that they are less of a priority, where conventional banks do have an advantage in the market worldwide. Mister Z confirmed that the Islamic banks are less of a priority, where they only got 8% of the market. He also confirmed that they wont be an alternative since the appetite is small. Additionally did the say that the Islamic countries aren’t innovative, where they only adapt products that have been innovated by the conventional countries. With this said, did he say that the Islamic banks will only be the follower and the conventional banks will be the leader. Mister Y took another turn, where he said that the future is dynamic but that the world is turning atheistic, which means that the Islamic banking systems will be less of a priority.