Looking Through the Shariah Window

- A Qualitative Study on the Swedish Main Banks’ Opinions about Islamic Banking and How They Develop a New Service

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Spring semester 2010
Bachelor thesis, 15 hp
Johan Jansson, thank you for your support.
Shaher Abbas, we would not have made it without your help.
Mohamed Abou Elnasr, we dedicate this thesis to you!
ABSTRACT

Islamic banking has been looked upon for over two decades already (Usmani, 2002). The conventional banks around the world have tried to search for new alternative services to offer their customers and through that increase the variety of their customer base. When it comes to the Swedish market, the discussion and awareness concerning the topic has only recently begun.

The problem formulation is:

- How does service development go about in the Swedish main banks?
- What are the reasons for not having implemented Shariah-compliant solutions within existing conventional banks in Sweden?
- What are the conditions for implementing Shariah-compliant services in the Swedish banking system?

The purpose of this thesis is to obtain knowledge concerning the Swedish main banks’ (Swedbank, Nordea, Handelsbanken, and SEB) opinions regarding Islamic banking, and whether they would consider the opening of Shariah windows. Also, to investigate whether an implementation would bring profitability to the banks.

Both fields of finance and marketing are being utilized, in order to add more angles for the reaching of the purpose and to enhance the scope of the study. The English banks; Islamic Bank of Britain, HSBC, Lloyds, and Bank of London and the Middle East, are used as reference points, since the UK holds the leading role of implementing Islamic compliant services in Europe. The theories used to help lay a foundation are; New Service Development, customer segmentation, risk, and diversification. Through the use of annual reports from the Swedish and English banks, a financial analysis was conducted in order to measure profitability. In addition, interviews with the Swedish banks, JAK, Baker & McKenzie, and Shaher Abbas at IFAAS, were carried out to obtain the information needed.

From the empirical data and the analysis, it was found that the Swedish main banks’ opinions regarding an implementation of Shariah windows, is that there is not enough demand for such an operation as of now. However, the authors have found that more thorough market research needs to be undertaken, before stating a lack of demand, as non-Muslims have been excluded from the discussion. More importantly, it was found that the banks have limited knowledge on the subject, which is something that needs to be dealt with first. The financial analysis indicates that the opening of Shariah windows could bring more stability to the Swedish main banks. Hence, the conclusion is to advice the Swedish banks to consider the implementation of Shariah windows in the nearby future, after gathering enough information on the subject, since it is, at the moment, greatly lacking.

Keywords: Islamic banking, Shariah window, new service development, customer segmentation, diversification, risk
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1. INTRODUCTION

In the introductory chapter, the background will be brought forward in order to introduce the reader to the subject of the thesis. This will be presented and eventually narrowed down in order to fit the problem formulation and the purpose of this thesis. Finally, the limitations of this paper will be mentioned so as to set a perimeter and enhance the level of comprehension for the reader.

1.1 Background

According to an article by Hall (2008), which gives an overview of the foundations of the recent financial crisis and the lessons to be learned, it is stated that the crisis started on the US sub prime mortgage market. People, who were not enough credit-worthy, were allowed through sub-prime lending to obtain a loan. These sorts of loans have a higher interest rate since these clients generate increased risk for the financial institutions. Consequently, many clients failed to repay the loans and interest, which lead to troubles for the inter-bank lending, and evidently the snowball effect was a fact (Hall 2008, p. 19-20).

The hardship it brought with it spurred a vivid global discussion concerning the broad damage it caused for industries, companies, and individuals. Additionally, the debate was also referring to the non-impacts that were visible in societies where Islamic banking took place, since Islamic banking does not rely on interest rates as means of profit. As stated in Al-Hamzani’s article (2008), Islamic banks are unaffected by the financial crisis because of the fact that they “do not deal with in-debt trading and distances itself from market speculation that takes place in European and American banks” (Asharq-e, 2008). Furthermore, according to Blundell-Wignall, Atkinson, and Lee’s article (2008, p. 2), one of the two reasons of the crisis was the varying interest rates across nations that caused an overflowing of the liquidity reservoir, and evidently it affected the global market. By the time the financial challenge had been realized throughout the globe, banks utilizing Islamic finance from England, Egypt, Malaysia, and Saudi Arabia, did not experience an equal heavy downturn as did the conventional banks of the West (Al-Hamzani, 2008). Evidently, an inquiry was raised as to why this occurred, and how to learn from it.

The discussion on the current happenings of the global economic market was incited, and even the pope himself, Benedict XVII, joined in by stating, according to the Daily Vatican, that “the Islamic banking system was the best way in helping the West to overcome the economic crisis” (Allvoices, 2009).

According to the International Monetary Fund, “the number and reach of Shariah-compliant financial institutions worldwide has risen from one institution in one country in 1975 to more than 300 institutions operating in more than 75 countries today” (Hasan, 2008, p. 28), where Shariah-compliant refers to being in line with Islamic laws. In connection with Shariah-compliance, a term that will often be used throughout this thesis is “Shariah window”, where
a window refers to Islamic financial services offered in a conventional bank. A more elaborated explanation can be found in chapter 3.

The debate concerning Islamic banking is highly relevant, first of all because of its already existing dialogue for over two decades, and also for its benefits that have been demonstrated by banks implementing its principles and showing good results for their institutions (Hasan, 2008, p. 29).

The principles behind the methods of Islamic financing have attracted financial institutions because of the contributions they make in the form of less risk-taking for the banks and increased productivity and efficiency of their capital allocation (Ahmad & Ismail, 2006, p. 8). The principles that differ from traditional banking are the profit-and-loss sharing (PLS) mechanism and the mark-up financing, where PLS is a mean of shared risk and return for banks and their customers. The latter refers to the manner in which a customer requests the bank to buy a commodity on a cash basis and promises to buy it at a higher price, a so called marked-up price, which replaces the traditional way of paying interest for a loan when purchasing a house, for example (Ahmad & Ismail, 2006, p. 8). The main principle that mostly distinguishes itself from conventional banking systems is the abolition of interest rates – the idea of making money out of money is prohibited, as it does not encourage productivity and moral fairness within societies (Hasan, 2008, p. 28).

One of the main reasons for turning to Islamic banking, as an alternative service provided to customers, is that it offers an economical balance for the institutions regarding the supply and demand of liquidity, and thus reduces the risk-taking and possible money loss for both parties. Its consistent principle of creating fairness and justice for all classes in society through discouraging money-making out of money follows ethical standards that are moralized throughout its system. (Ahmad & Ismail, 2006, p. 10).

Banks from the West, such as HSBC, Citibank, and Goldman Sachs have promoted Islamic banking by employing services following its value-based system in order to attract the oil-wealth of the Middle East as well as Muslim clients from their respective local markets (Khan & Bhatti, 2008, p. 710). During more recent times, the general public has realized the benefits of stability with interest-free banking, and so clients beyond the Islamic faith have shown great interest in this newly introduced banking system. Consequently, the general image in which Islamic banking has been painted, is interpreted as holding a positive light to it, stating that it would stabilize the institutions’ businesses by managing the banks with an ethical conscious. As a result, it would cause for better well-being of their societies and its individuals, as the amount of debts and loans would drop for both banks and their clients.

In Europe, the UK has become the center for Islamic finance (International Tax Review, 2009), and it offers multiple alternatives for people seeking interest-free banking. This can be obtained from an Islamic bank, or a traditional bank offering a couple of services, such as interest-free accounts and the counterpart of venture capital called Mudaraba (Warde, 2000, p. 135).
The UK is looked upon as the pioneer (within Europe) of implementing Islamic banking into their conventional banks and societies, and with the ongoing debate concerning the topic, an increased amount of financial institutions have followed, such as in France (International Tax Review, 2009).

A conference was held about two years ago by the law firm Baker & McKenzie, who arranged an event on the topic of Islamic banking for the big banks in Sweden (Fastighetsnytt, 2008). The result was a kindled interest for this alternative financing service and now speculations are being made regarding the future for Islamic banking in the Swedish market economy. According to a memorandum written by Terfelt (2008), the Swedish Financial Supervisory Authority (Finansinspektionen) states that there are “no obstacles for Islamic banking in Sweden”, meaning, general products and services following Islamic financing laws are applicable and feasible to be offered by the Swedish banks (FI, 2008).

A relevant question is whether a demand occurs for Shariah windows, i.e. Islamic-compliant services, in Sweden or not. Banks need to know that there will be a response to their supply, and thus a window into enhancing their business’ competitive advantage. An important fact to mention is that a couple of banks, one of them being the Islamic Bank of Britain, have expressed interest in entering the Swedish market in order to gain potential customers. This means that they have spotted a possible window of profitability (Islam in Europe, 2007). Here, a discussion about profitability is in its place, as it is viewed differently in Islamic banks compared to conventional banks. A conventional bank measures profitability through revenues, by stressing the balance of their budget, whereas Islamic banks are not as revenue oriented. Instead, they put their focus on added value as a means of profit, where the value is measured in terms of wealth distributed equally in society. Indeed, gaining revenue is important to Islamic banks in order to break-even, still, the main focus is to encourage fairness and well-being for both the bank, their customers, and the community as a whole. With this said, both Islamic and conventional banks share the view that increasing demand, and hence their customer base, is a profit for their business, meaning the more customers they gain, the more stimulated the money-flow will be, and hence the more profitable the banks can be.

The manner in which banks would apply Shariah-compliant services and products must be done in order to correctly attract the segmentation of customers they wish to target. These are all fairly important facts to consider for banks, before implementing any new service, and hence significant to find knowledge about for this thesis work. What can be mentioned already is that a demand for interest-free banking is increasing when looking at the success of the bank JAK, which is a Swedish member bank operating without the usage of interests (Yesmagazine, 2002). JAK holds very similar principles as the ones of Islamic banking, where the core values are justice and ethical managing of the firm, in order to create well-being for societies and its individuals (JAK, 2010).

Ultimately, should Swedish banks follow this movement, and will it bring profitability to the banks’ operations? An investigation of Sweden’s banks’ opinions on the subject would be handy and appropriate, as Islamic banking holds the title of being “the fastest growing
industry of the contemporary world of finance” (Khan & Bhatti, 2008, p. 709). The knowledge gained from finding out the attitudes of the Swedish banks regarding the matter, and also, in the light of a possible implementation of Shariah windows, understanding their ways of customer segmentation to promote such services and products, would bring prosperity for any Swedish banks considering Islamic-compliant alternatives. Thus, the information obtained will add to the fruitfulness of comprehending Islamic banking as a whole, and accordingly, work as a reference point for a better insight if Swedish banks ever consider implementing it.

By studying this alternative system of banking and trying to relate it to today’s conventional methods of managing financial institutions, a combined system will be approached, where conventional banks are including Shariah windows in their businesses. Ultimately, this would allow for the Swedish banks to expand their variety of services offered to their customers and be able to attract several groups of potential clients holding different views on religion or moralities of life, to mention a few. Hence, Islamic banking does not have to be viewed as being a limiting system that can only be applied in Islamic countries or that is solely of usage for Muslims, but rather that its principles bring profit and efficiency through risk aversion and emphasis on performance to all and any groups of people.

In this thesis, the efficiency and performance of Shariah-compliant solutions in UK’s financial system will be examined, since they are the leading nation in this field within Europe. The UK is thus used as a reference because of the reason that both Sweden and the UK are situated in Europe and thus have similar cultures. In addition, some key ratios will be calculated in order to ease the manner of comparing profitability and productivity between the different banking systems in Sweden and the UK. Interviews with the four Swedish banks will be conducted, as well as interviews with JAK, Baker & McKenizie, and Shaheer Abbas at Islamic Finance Advisory and Assurance Services (IFAS). These investigations combined will then be used as tools of justifying whether an implementation of Shariah windows is beneficial or not for the Swedish main banks.

However, something worth arguing over is what being beneficial is to the banks, that is, the meaning of profitability. Does it exclusively refer to profit in terms of money and revenue earned? Is it limited to being merely a measure of numbers and increased liquidity of a bank? Or, could the definition of the word profit also include the gaining of more satisfied customers and reliable and steady forecasts of the annual reports? These wonderings may be kept in mind while reading about conventional banks and Islamic banks.

This thesis utilizes both fields of finance and marketing, because a profitability measurement through ratios is used, and also the conducting of interviews. The purpose for integrating between these two areas is to get a broader understanding of this new alternative banking system in regards to Sweden. As no previous research concerning the Swedish banks’ attitudes about Islamic banking has been performed, that the authors of this thesis are aware of, the mixing of both fields seemed necessary in order to increase the scope of this study. Hence, the subject in focus is concentrating on new opportunities for the Swedish financial market.
1.2 Problem Formulation

What the authors of this thesis felt was missing, is a study being directed towards Sweden’s situation and what its main conventional banks are planning in terms of offering new Shariah-compliant services to the Swedish population. The only fact that can be known by checking out the websites of the Swedish banks is that none offers services which follow the Islamic financing laws. Are there any plans of implementing Islamic-compliant solutions? What are the opinions of the banks concerning this matter, and what are the reasons for not seemingly following the trend of Shariah-compliant finance?

The selected research area is finance intertwined with marketing, and the subject in focus is Sweden’s larger banks’ opinions and feedback regarding the choice of subject. This led to the following problem formulations:

- *How does service development go about in the Swedish main banks?*

- *What are the reasons for not having implemented Shariah-compliant solutions within existing conventional banks in Sweden?*

- *What are the conditions for implementing Shariah-compliant services in the Swedish banking system?*

The authors of this thesis found the order for the questions as being doubtful at first, because of fear of readers’ confusion about the purpose of this thesis. The actual purpose of the thesis is to obtain information regarding why Swedish banks have not implemented Shariah windows, and hence service development would rather be seen as a take-off point. The first problem formulation gives insight to how an actual service development would go about. The second problem formulation is a narrowing down from the previous problem formulation to the actual focus of this thesis, whereas the third problem formulation provides reasons to how a possible implementation could be done.

1.3 Purpose

The purpose of this thesis is to obtain the Swedish main banks’ opinions about Islamic banking and whether they would consider the opening of Shariah windows.

Additionally, the issue whether it would bring profitability for these banks, is investigated.

1.4 Limitations

The research that this thesis aims to bring forward is that knowledge will be increased of the Swedish banks’ opinions regarding Islamic banking and its possible contribution to profitability. These gathered facts will help to expand the understanding of how these banks reason and what they emphasize on when considering a new service development. In addition, once developed, this newly gained knowledge can then be used by other financial institutions considering the implementation of Shariah-compliant services, and thus this research can work as a theoretical reference and a starting point for firms of the financial field considering Shariah windows within conventional banks.
Furthermore, with the knowledge obtained from the examples of the UK, which have been used in this thesis, the Swedish banks will have earned themselves some practical advantage in regards to applying Islamic-compliant services and finding ways of marketing it and attracting customers. With this familiarity, the Swedish banks can look upon the concrete changes that the UK banks using Shariah windows had to undergo, and learn from their practical experience. Conclusively, the practicalities will aid in the increased perception of what Islamic banking or Shariah windows can provide as profitable for financial institutions, Swedish ones in particular.

If granted more time, the research could have been a more concrete study with more detailed bank interviews to advance the gained knowledge, as well as surveys on customers’ opinions and their possible demand on Shariah-compliant services. In this way, a two-sided perspective could have been brought out in order to correctly investigate the supply and demand of Islamic banking in the Swedish society. However, this could not be incorporated into the investigation. On the other hand, the time granted was efficiently used by looking at the chosen perspective from different angles. Interviews were conducted, but also a financial analysis of the chosen banks in the UK was carried out, in order to measure profitability in comparison with the Swedish banks. A further limitation which this thesis holds was the restricted material on the topic of focus, meaning on Sweden’s involvement in the field of Islamic banking. There is a lack of research on the Swedish banks’ actual attitudes and future plans considering the application of Shariah-compliant services, and this kind of information is quite relevant since it is being widely spread throughout the West and fruitfully applied in conventional banking systems. Islamic banking is a current headline in the global market economy and it is continuing to be heavily discussed and considered as a strong tool to increase the competitive advantage of a bank as well as adding diversification to an institution, as more specialized services would be offered to the public (Ahmad & Ismail, 2006, p. 9).

Drawing far-reaching conclusions based on this thesis should be done with care, since it is not an extensive and sufficiently broad one to provide a solid base for any generalized theory creation. However, the final inferences drawn can work as a foundation for future studies concerning this kind of investigation, and the conclusions worked out by the study of this thesis can ultimately be applied in the generation of a theory.

The content of this thesis should be regarded as holding validity and reliability for producing inferences concerning this specific field of investigation. Though equally, the reader needs to keep in mind that some limitations do exist, and thus no theory or development of concepts should be applied generally to the certain target population, i.e. the Swedish citizens including the main banks.

Finally, it may seem as though the authors of this thesis have already taken a positive stand of the subject matter. This is not necessarily the case; rather these are the findings that can be extracted from different sources. Surely, the sources do not praise the usage of Shariah-compliant services, but at the same time, no direct negative aspects of it were brought forward. Nevertheless, the authors of this thesis try to keep an objective stance and through that, discuss Islamic banking and a possible opportunity for banks to expand their activities.
2. METHODOLOGY

In this section, the methodological assumptions of this thesis will be described. The chosen research strategy will be put forward and explained, in order to improve the transparency of the study. Finally, an ethical consideration will also be included to show for the integrity of this paper. Regarding the problem of this study, which is the lack of information of Sweden’s involvement in Islamic banking, the methods of finding these facts is quite relevant, as it will fill a big gap of knowledge relating to this market, and that is quite a responsibility. The three research questions that are presented will be answered through the authors’ choice of methodology, and equally work as a sounding board throughout the statements made in this study.

2.1 Research Method

This thesis is holding a qualitative, and to some part, a quantitative research approach. The authors of this thesis prefer to put the focus on interviews and try to instigate answers in that way in order to generate a theory. Yet, what must be stated here is the issue of utilizing the quantitative measurement of profitability ratios for when comparing between the chosen banks in the UK and Sweden. However, the profitability indices used are merely applied to give more depth and integrity to support the purpose of this thesis. This leads to the justification of combining the fields of marketing and finance, because both the interviews and the financial analysis will add to the scope of this study.

The research method in this thesis leans more to holding an inductive standpoint, which means that observations and findings will generate a theory from this data, as opposed to a deductive approach where a hypothesis is tested for validity. Although an inductive approach is being taken, the generation of a theory cannot be ascertained, but it can hopefully provide essential generalizations which can be used (Bryman & Bell, 2007, p. 14). With the stance of this thesis kept in mind, the objectives are to gain information of the Swedish banks’ opinions concerning Islamic banking and their standing points towards this alternative Shariah window in the future. Hence, due to the nature of the study, no hypotheses are being tested for authenticity; instead, the aim is to generate enough information to act as groundwork for the Swedish market economy if considering the implementation of Shariah windows. Accordingly, the study retains on its inductive disposition.

2.2 Epistemological Assumptions

Epistemology is simply the theory of knowledge, i.e. the science on the subject of what we actually know and how we reach certain knowledge (NE, 2010). The qualitative approach uses interpretivism as opposed to positivism for the quantitative approach (Bryman & Bell, p. 28). Positivism concerns the application of the natural sciences to study something within the social sciences fields (Bryman & Bell, 2007, p. 16). Interpretivism, on the other hand, was developed since certain writers did not believe that social science research could be looked upon from the natural science order. They meant that understanding human action could not be done by seeking accurate answers, since every person have their own personal perception of the world (Bryman & Bell, 2007, p. 17). With this said, the angle of this work has its perspective on the information gained from the interviews made, and thus puts responsibility of the trustworthiness on the interviewees. The statements made by them will hold credibility for their respective bank, meaning each interviewee is looked upon as the voice for their own
bank. However, a common universal standpoint of the banks’ opinions is by no means expected, as they all are independent financial institutions. Nonetheless, the objective of obtaining information from these banks will be fulfilled and will, consequently, allow for the answering of the problem formulations. Hence, the choice of picking several banks to interview has its background of regarding the interpretivistic position.

2.3 Ontological Assumptions

Ontology is, by and all, the study of the nature of being and existence (Dictionary.com, 2010). It can be divided into two sub-groups; objectivism and constructionism. The first states that reality exists and will not change by social actors’ consciousness, wishes, or fears, implicating that objectivity is the way to gain knowledge about reality (Onegård, 2008). Constructionism, on the other hand, states that the reality is constructed by social interactions and joint behaviour (NE, 2010), but also that reality is in constant revision (Bryman & Bell, 2007, p. 23).

According to this research, the correct perspective to hold is a constructionist one, since the field studied is constantly changing and thus has no set of unchanged rules to comply with, as the actors and institutions acting within it are continuously reshaping and being shaped of their surroundings and the level of supply and demand in the market. Here, the demand of Islamic-compliant services from the Muslim Association of Sweden would be given a chance to be considered (Islam in Europe, 2010). Moreover, the evaluation of a possible opportunity for the Swedish banks to increase and diversify their customer base would be activated. Holding an objectivist perspective would not be logical for this study, as it implies that no matter the demand of the market economy and the turns it can undergo, a change for the banks and employees to adjust accordingly, would not do reality any good, which is incorrect. Additionally, the entire purpose of this investigation would not be validated if keeping an objectivist attitude, given that objectivism would not believe in the responding of a demand for Islamic banking, or even looking through the Shariah window.

2.4 Research Strategy

2.4.1 Data Collection

The manner in which data was collected was done through interviewing. Four of Sweden’s main banks were selected, namely Swedbank, Nordea, Handelsbanken, and SEB, including the Swedish membership bank JAK. Additional interviews were done with Baker & McKenzie, because of their arranged conference on the topic of Islamic banking two years ago, and also with Shaher Abbas at IFAAS, due to his current co-operation with several Swedish parties. Regarding the interviews, the banks’ head offices (in Stockholm for the four main banks and Baker & McKenzie, and in Skövde for JAK) were contacted by the authors in order to find the proper personnel to provide with the information needed. Abbas in England was contacted directly.

2.4.2 Advantages and Disadvantages of Data Collection Method

Because the authors of the thesis are situated in Umeå, no personal face-to-face interviews could be performed due to lack of resources and funding. Obviously, this is a setback of the trustworthiness of the study, since interviews not held in person increase the possibility of
communication displacement as well as increases the errors that may arise when relying on the medium of telephoning. However, because of the distance between Umeå and Stockholm, as well as Umeå and Skövde, and Umeå and England, the most convenient way of gaining the knowledge was through telephone-interviewing, (and in the case of Abbas, the use of Skype). Despite the disadvantages that the method includes, it still stands as the next best offer after personal interviews, since the information is delivered live and allows for follow-up questions. According to Bryman and Bell (2007, p. 214), there are certain advantages to telephone interviews: they are faster and cheaper, as trips do not need to be undertaken, and the interviewee will not be affected by the appearance of the interviewer and vice versa, since this can affect the content of the interview when conducted face-to-face. The limitations that have to be kept in mind involve the lack of ascertaining that the interviewee is in fact the person s/he claims to be, as well as the missing observation of reactions to the questions that could act as an enhancement of the sense of the interview (Bryman & Bell, 2007, p. 214-215). Nonetheless, these weaknesses are being attended to and considered by the authors of this thesis, and through cautious execution the telephone interviews were considered to deliver on the information needed.

2.4.3 Searching for Contact Information

The homepages of the banks were used to find their contact information. The first attempt to find interviewees was through e-mail. Some banks did not reply and others who replied through e-mail were not of much help. The second attempt was made through phone calls in order to locate suitable interviewees. While calling, there was often confusion at the telephone central of the bank, as Islamic banking does not seem to be a well-known subject. Thus, in most cases, it was found complicated to get a hold of interviewees.

The initial idea was to talk to the CEOs of the main offices, however it was difficult to get a hold of them, and thus it became obvious for the authors that it was necessary to ask for someone at the department of product development and innovation. The reason for this choice lies in the nature of their work position; their involvement and main responsibility of introducing any new service within their respective banks, which is ideal for answering this thesis’ problem formulations.

Interviewees were found for Swedbank, Nordea, Handelsbanken, and SEB. The interview with JAK and Baker & McKenzie is explained further down.

2.4.4 Preparations of Interviews

The preparations done before executing the interviews was the formation of an interview guide. This kind of approach was used as it is more relaxed and does not follow any strict set of questions, in comparison to quantitative interviewing (Bryman & Bell, 2007, p. 473). Instead, the interviewee is encouraged to float away from the questions to express their own viewpoints on and around the subject. In addition, this kind of interview style allows for the interviewer to ask follow-up questions, whenever felt needed or relevant, and hence creates a more flexible course of action for both parties. This eventually adds to the scope of the study and to the depth of the thesis as a whole. This leads to the second notion which the authors of the thesis had to decide upon; whether the interview should be a semi-structured or an unstructured one. The difference is that the latter is held as a normal conversation after presenting the topic in focus, while the first method has already prepared questions to work as plainly a guide for the interview. This

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means that the order does not necessarily have to be followed, and that additional questions are more than welcomed to reside while talking to the interviewee. Consequently, the questions held were open-ended ones, which allowed for large flexibility for the interviewees, something that was encouraged by the nature of this thesis (Bryman & Bell, 2007, p. 474), meaning that a semi-structured interview guide was followed. In accordance with Bryman and Bell (2007), the authors of this thesis agree that an interview guide should act as a criterion to ensure that a natural and structured flow is activated during the interview (Bryman & Bell, 2007, p. 483), and that is the reason for setting up the information-gathering through this mean of methodology.

The actual guide is formulated in a way to feature the different banks’ opinions and reflections concerning Islamic banking and thus includes the connection with the problem formulations and the purpose. One remark that must be mentioned is that the interview guide is written in English, however the actually interviews carried out were done in Swedish. This, seemingly, may create a gap for possible displacement of communication, and can hence cause for loss of information due to the language barriers during translation. However, this issue was being attentive to by the authors, and it ultimately was not looked upon as a problem because of the fact that one of the authors has been using both languages as first language for over a decade, while the other author actually holds both languages as mother tongues. Therefore, the translation was not an issue and the combination of languages cannot be considered to create any weaknesses for this thesis. For the complete interview guide, please check the appendices of this thesis.

2.4.5 The Execution of the Interviews

A day and time for interviewing was decided upon for each bank. The questions that were going to be asked during the interview were e-mailed out to the respondents, in order to prepare them for the actual content of the interview. The authors then called the interviewees on the agreed upon occasions. The interview was performed with the two authors present, with a duration of between 30-45 minutes. One of the authors always initiated the conversation by presenting themselves, asking how the interviewee was doing and so on. The other author then started the actual interviewing following the interview guide.

During the interview, other questions came up beyond the interview guide as the conversation went along. Thorough answers were given by the respondents, who all at some points during the interview entered into other but relevant fields that were not included in the interview guide. During the interview, one of the authors had the responsibility of writing down the essential parts of what was said, in order to be able to analyze it later. This particular author is fast in typing on computers and was then decided of holding adequate speed for including all the essentialities. Thus tape recording and transcription was not used. As Bryman & Bell (2007) state, the taping of interviews is preferred in order to not miss out on information and formulations from the interviewee (Bryman & Bell, 2007, p. 484). However, the authors of this thesis disagree for this particular study, as there were two interviewers present during the interviews, and plenty of shared time was available to ask the questions and type down the answers. Conclusively, the authors are aware of the advantages of tape recording and its benefit of minimizing communication errors, however, for this study, it is not causing any major inaccuracy for the research and so no magnitude of its contribution is measured.

The interview with Nordea was made through e-mail, as the respondent at that bank was very busy and no one else could offer a telephone interview. This was done by emailing the guide
to the interviewee, who then mailed back his responses. Some questions were answered more thoroughly while others were simply brief comments. The authors are still grateful that the bank at least found the time to answer the questions through e-mail. The limitation of this technique involves the matter of not being able to encourage flexibility through follow-up questions. However, since there was no choice, the authors of this thesis still consider the e-mail response as better than nothing.

The authors also called JAK in order to ask for an interview. They got to interview the CEO straight away. The same procedure and duration of the previous telephone interviews were followed. For JAK, another set of interview questions were used in the interview guide. The same procedure was followed when performing the telephone interview with the part-owner of the law firm Baker & McKenzie. Also here, another set of interview questions were used. Both these interview guides can be found in the appendices of this thesis.

The reason for not including a “facesheet”, where information about the interviewee is gathered, was because the interviewee was looked upon as representing their entire financial institution, and a bank cannot be seen as holding certain life experiences or work skills in the way as a person would (Bryman & Bell, 2007, p. 483).

As these interviews were conducted and presented, a realization was made that the banks had not provided with enough facts, since Islamic banking is a relatively new subject in Sweden and not that well-known, as noticed from the interviews.

2.4.6 Elaborating the Interviews

The authors of this thesis wanted to expand the thesis, and they remembered an article from the finance paper e24, where an interview with Shaher Abbas, who at the time was working with the Islamic Bank of Britain, had presented their interest in entering the Swedish market with Shariah-compliant products.

Shaher Abbas was contacted through e-mail, and a quick response was given, with a clear interest from Abbas’ side. After some communication through e-mailing, an interview was decided upon, where Skype was used. Since Abbas is situated in England, a personal meeting was not an option.

This interview was conducted by one of the authors, since at the time both of the authors could not jointly participate. The interview took 105 minutes, and it was tape recorded, because of the fact that only one author was attending.

Abbas was very helpful and offered his services if further questions would arise. After transcribing this interview, which was full of interesting facts, the authors of this thesis wanted to get a response from the Swedish main banks, to see if this would change their view from the previous interview. If an implementation now would be of interest, the authors also found it necessary to gain knowledge about how the Swedish main banks work with product development and what the process looks like.

The Swedish main banks were contacted once again, through the use of telephone. The authors met a lot of resistance as it was hard to find a suitable person for interviewing. An employee from the product development department was requested. At Swedbank, the authors got directed to the same person as had been interviewed the first time, and this interview was conducted through telephone, with a duration of 20 minutes. The same event happened with Handelsbanken, with the difference that this interview was realized through the use of e-mail. SEB preferred to leave their answers through the use of e-mail as well, as they felt that they
did not have the time for a telephone interview. The authors of this thesis had then already tried for almost two weeks, every day, to get in contact with someone for a telephone interview, and hence e-mail interviews were then welcomed, if that was what could be offered. For the case of Nordea, no one wanted to help out by giving an interview. A few short answers were given from one of the fund managers within Nordea, but then the focus was on funds only.

Again, only one of the authors conducted these last interviews, since both authors together could not be present. The interviews were then transcribed to fit the presentation of this thesis.

2.4.7 Overview of the Interviews

The interviews in part 1 were made using an English interview guide, but Swedish was spoken in the telephone interviews and the communication through e-mail for the other interviews. The interviews in part 2, for JAK, and for the main banks were made using a Swedish interview guide, whereas the interview guide for Baker & McKenzie was written in English. The interview guides from part 1 and part 2 who were written in English, got translated for the appendix of this thesis. The interview with Shaher Abbas was made using an English interview guide. All these can be found in the appendices section of this thesis.

The interviews with JAK, Baker & McKenzie, and Shaher Abbas should be seen as interviews giving surrounding facts, whereas the interviews with the banks are the ones supposed to respond to the purpose and problem formulations of this thesis.

For an easier overview, see the table below:

<table>
<thead>
<tr>
<th>Interviewees (Part 1)</th>
<th>Method</th>
<th>Time duration</th>
<th>Language Interview guide</th>
<th>Language of conducted interview</th>
</tr>
</thead>
<tbody>
<tr>
<td>Swedbank</td>
<td>Telephone</td>
<td>45 min</td>
<td>English</td>
<td>Swedish</td>
</tr>
<tr>
<td>Handelsbanken</td>
<td>Telephone</td>
<td>30 min</td>
<td>English</td>
<td>Swedish</td>
</tr>
<tr>
<td>SEB</td>
<td>Telephone</td>
<td>40 min</td>
<td>English</td>
<td>Swedish</td>
</tr>
<tr>
<td>Nordea</td>
<td>E-mail</td>
<td></td>
<td>English</td>
<td>Swedish</td>
</tr>
<tr>
<td>JAK</td>
<td>Telephone</td>
<td>40 min</td>
<td>Swedish</td>
<td>Swedish</td>
</tr>
<tr>
<td>Baker &amp; McKenzie</td>
<td>Telephone</td>
<td>30 min</td>
<td>English</td>
<td>Swedish</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Interviewees (Part 2)</th>
<th>Method</th>
<th>Time duration</th>
<th>Language Interview guide</th>
<th>Language of conducted interview</th>
</tr>
</thead>
<tbody>
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<td>Swedbank</td>
<td>Telephone</td>
<td>20 min</td>
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</tr>
<tr>
<td>Handelsbanken</td>
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<tr>
<td>Nordea</td>
<td>E-mail</td>
<td></td>
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<td>Swedish</td>
</tr>
<tr>
<td>Shaher Abbas</td>
<td>Skype</td>
<td>105 min</td>
<td>English</td>
<td>English</td>
</tr>
</tbody>
</table>

Table 1 Overview of the interviews

Here the authors want to make a relevant statement. It might seem as if not enough information was extracted from the interviews, and this is agreed upon. The consistently mentioned lack of knowledge concerning Islamic banking was the cause of the relatively short interviews. Occasionally, the interviewees could not even provide with answers. This may
seem as being a weakness of this thesis, however, it can only be looked upon as emphasizing on the importance of the study, and thus, of answering to its purpose. With this said, that is where the justification of including a second round of interviews comes in, in order to expand the information from the banks, where Abbas was the main source of information.

2.4.8 Financial Data Collection

Four ratios were picked out from each of the banks’ annual reports from the years 2005-2009. Three of them measures profitability, and the forth shows a bank’s health. The choice of ratios was based on the profitability measure that the authors of this thesis aimed to investigate, where two ratios are bank specific, namely the cost-to-income ratio and Tier 1 capital ratio. The specific time frame was chosen because it is the most recent one and is topical in the sense of providing the latest information, something which is highly desirable in order to make this thesis an up-to-date investigation. The annual reports were found on the respective homepages of each bank. The ratios retrieved from the annual reports, were then put into excel, where tables for each ratio were made, in order to make easy comparisons between the banks. How they were calculated is presented in the empirical section of this thesis.

2.4.9 A Final Note

The purpose of this thesis is to obtain information on the Swedish main banks’ opinions concerning Islamic banking, and if the implementation of Shariah windows would bring profitability for these banks. Looking only at this part of the purpose, the authors thought it was reasonable to make a financial ratio analysis of the Swedish main banks, including two pure Islamic banks and two conventional banks with Shariah windows in the UK, as UK is the leading centre for Islamic banking in Europe, as stated in the first chapter. The banks in the UK, who were either pure Islamic banks or had Shariah windows, were found in an article from Islamic finance news (Schoon, 2009). There are only two commercial Islamic banks in the UK and the choice of Shariah window banks was based on the perception of the authors of which were the biggest banks and most well-known.

2.5 Ethical Considerations

As the design for this study was established, heavy thoughtfulness was put into the matter of holding an ethical perspective when dealing with the subject. Also, the handling of the interviewees and the maintaining of fair treatment towards them has been considered by the authors.

This research holds its basis as a predictive one, where the intention is the attainment of knowledge regarding the Swedish banks’ opinions on Islamic banking. This is also looked upon as information that can be used for similar future research in order to increase the awareness of Islamic banking for the Swedish market and ultimately to provide a foundation of a basic profitability analysis for the Swedish financial institutions.

The different respondents used are looked upon as representing the voice of their respective banks, and so the analysis deals with the organizational level (Bryman & Bell, 2007, p. 69). With this said, it is important to not lose focus of the actual interviewee being a person and not an organization, and so the questions included in the interview guide are formulated in the sense of regarding that ethical matter. Furthermore, the investigation of this thesis has been
chosen to be viewed as a representative case study, assuming that the results obtained would reflect reality with a relative degree of accuracy (Bryman & Bell, 2007, p. 64). From this, the authors make a regulatory assumption on the purpose of the study, stating that the objective is observation and description, not radical change or judgment (Bryman & Bell, 2007, p. 25-26). Here, to act unethically would be to state that the results obtained are the absolute reality for how the market economy should act, and thus to pass a definite judgment based on the results attained. However, keeping an ethical frame of mind, which the authors are striving for, the results will be regarded as holding a relative degree of accuracy, but not any universally or nationally recognized findings to follow.

Because of the continuous consideration of ethics regarding the methods used for this research, it was quite important for the authors to hold utmost courtesy and respect for the interviewees, but more importantly, for the information gathered as a whole. Because this kind of study does not exist for the Swedish market, as far as the authors are concerned, it is rather a big responsibility to take in when attempting to fill this gap of knowledge. The intention is not to completely fill the gap, but rather lay a foundation for this newly embarked field.

With that stated, the authors support the position of universalism, which holds the view of paramount thoughtfulness of ethical precepts and that their borders should never be crossed (Bryman & Bell, 2007, p. 129). This attitude is attempted to be followed throughout the thesis.

In the endeavour of ensuring an ethically performed investigation, seven points presented by Bryman and Bell (2007, ch. 4 & ch. 5) are measured:

- **Whether there was any potential harm to participants** (p. 132-133)
  Before completing the interview, it was made sure that the interviewee understood that the information gathered would solely be used for the purpose of the thesis. The questions in the interview guide were formulated in a way to not cause any harm for the respondent, in the sense of having to answer in opposition to their own interests, or their banks’ interests. Before starting to interview, the authors made sure that referencing of the different respondents was acceptable, and also agreed to send them the material written in order for them to accept the inclusion of that information.

- **Whether there’s a lack of informed consent** (p. 135)
  As an introduction to the interview, the authors clearly stated the reason of the interview, as well as the purpose and importance of the respondents’ participation. The transcriptions of interviews were redistributed to the participants in order for them to approve for publishing. This was done to lessen the risks of any accidental unethical behaviour.

- **Anonymity** (p. 140-141)
  The issue of anonymity is not an option for this kind of research, as it is clearly stated which banks are observed and who the interviewees are. In order to strengthen the study’s reliability and credibility, anonymity had to be consciously disregarded in case further research of this field was aspired and the same financial institutions were to be contacted. Still, it was openly agreed upon the overlooking of anonymity, for the importance of the study, by the interviewees. An exception here would be the fund manager at Nordea who wished to be kept anonymous.
• **Whether there is an invasion of privacy** (p. 140)
This point continues on the notion of the previous ones, in the sense that the information received during the interviews will not be used other than for the purpose of this thesis. The banks’ opinions are collected for the completion of this study, and the respondents used will have their personal details included as reference, in case future inquires become noticed. Again, this was fully agreed upon.

• **Plagiarism** (p. 120-123)
This thesis has utilized the Harvard system of referencing, and throughout the work, the authors have tried to make sure that any sources used by others have been referred to.

• **Confidentiality** (p. 140)
This point has been followed by ensuring that the information obtained from the respondents will be used for nothing outside the scope of this study.

• **Reciprocity** (p. 144-145)
This final point is of huge importance for this study and the target market as a whole. Initially, it benefits the authors carrying out this investigation, by providing the data sought out for. Secondly, it benefits the banks, since this study will evaluate the possibility of increasing the profitability for their operations. And lastly, it will benefit the customers of banks and hence the general public of Sweden, as they will gain knowledge of alternative ways of handling their financing, and hopefully satisfy certain groups who personally seek out for following the values of Islamic banking.

Conclusively, an aspect relevant to underline is the concept of the authors’ values. Since all individuals carry their own experiences, values, and knowledge from previous happenings in their lives, this probable setback has to be considered (Bryman & Bell, 2007, p. 30). The authors of this thesis are aware of this concept and are trying to hold an objective point of view as far as possible. Also, an honest effort of not interfering with the data collected is made in order to maintain a satisfactory level of trustworthiness and credibility of this thesis.

2.6 The Combination of Fields

Both fields of finance and marketing are being dealt with in this thesis. By combining the data collection of financial indices, with the data collection of opinions from the interviews, a broader picture is painted. Moreover, the merging also provides more depth to the work, by supplying with concrete factual information in the form of raw numbers, as well as adding information obtained through human views.

These two methods complete each other, as the problem formulations and the purpose of this study are being approached from two different perspectives. By holding this style of technique, the reliability and integrity of the thesis are enhanced, since the aim of presenting an objective study is truly being intended.

Various articles and sources have been used to provide with appropriate information concerning this topic, however by combining the two fields, one gets to see the subject from different angles. The purpose and problem formulations of this thesis cannot be answered without both these approaches, since the financial numbers show the profitability of Islamic and conventional banks, while the interviews make one aware of the level of knowledge of the Swedish banks, or the lack of it.
3. THEORETICAL FRAMEWORK

Before presenting the theories used in this thesis, it is important to start off with some background on conventional banking and Islamic banking. Concepts will be defined, in order to ease the understanding of the subject in focus, and finally, to pave the way for the theoretical framework applied to this study. The theories utilized are the New Service Development theory (NSD), the customer segmentation theory, risk theory, and the diversification theory. These are picked in order to give the banks a base for how a possible implementation of financial services would come about, by encouraging the process of measuring profitability through financial data and market evaluation.

3.1 The Financial System

Howells & Bain (2008) states that a financial system is “a set of markets for financial instruments, and the individuals and institutions who trade in those markets, together with the regulators and supervisors of the system” (Howells & Bain 2008, p. 4). This system is used by different actors such as people, organizations, and businesses. The main objectives of a financial system are the following:

- Act as a link of intermediation between those parties with a surplus and those with a deficit
- Provide financial services such as insurance and pensions
- Work as a payments mechanism
- Provide portfolio adjustment facilities

It should be said that although the financial institutions within the financial system have different areas of focus, what they do have in common is that they all are providers of finding the linkage between surplus and deficit units (Howells & Bain, 2008, p. 4).

3.2 Conventional Banking

A conventional bank has some main features. In short, one could say that it has three areas of operations: payments, borrowing, and lending (Bankforeningen, 2010). The main assets of a bank are loans and the main liabilities are deposits. The former is a claim from the bank on customers, whereas the latter is a claim from customers on the bank (Howells & Bain, 2008, p. 32).

First and foremost, they work as an intermediary between lenders and borrowers. To do this in the most efficient way, they have to handle maturity transformation, meaning, how an investment changes over time, look at short-term and long-term alternatives, handle the reduction of risk, look at how risk and return go hand in hand, and also achieve the lowering of transaction costs (Howells & Bain, 2008, p. 32). These areas, along with others, and in combination that they all are based on interest rates, showed its severe consequences when not being handled properly, as seen from the latest financial crisis. As mentioned in chapter one, the financial crisis did not strike the Muslim societies as severely as in the West, due to their Islamic banking and its interest-free system.

The banks of a society are usually connected to a central bank of the country, which is also the banks’ “lender of last resort”. If they get into financial troubles they can turn to the central bank in order to be able to keep operating (Howells & Bain, 2008, p. 71). Another way for the
bank to save a liquidity shortage is through interbank lending, which is usually a day-to-day loan.

According to regulations, in most countries a bank needs to have a required reserve ratio. It should be said though that the larger the customer base, the smaller the reserve ratio needs to be, since it is very unlikely that all customers would come at once and withdraw their deposits (Howells & Bain, 2008, p. 38).

A newer method than the required reserve ratio is that of the Basel committee on Bank Supervision. It focuses on capital requirements rather than on liquidity requirements, and thus shows a bank’s level of credit risk (Investopedia, 2010).

In 1988, the Basel committee on Bank Supervision created the Basel I accord. It is regarding banks’ credit risk, i.e. the risk that the counterparty of the bank cannot make payments on time (Howells & Bain, 2008, p. 565). In 2006, the Basel II accord was implemented since the committee did not perceive the Basel I accord as a sufficient model regarding risk. The smaller banks are still following the Basel I accord, whereas bigger banking groups now follow the Basel II capital accord. In both Basel I and II, the standardized formula for the risk-weighting of assets is the same. The minimum ratio of capital to risk-weighted assets including operational and market risks, is 8% for the total capital (Howells & Bain, 2008, p. 566).

Together with the Basel accords, the Tier I capital ratio was created, followed by the Tier II capital ratio and the Tier III capital ratio (Howells & Bain, 2008, p. 563). In the analysis of ratios in this thesis, what has been looked upon is the Tier I capital ratio. The Tier I capital ratio shows the financial health and strength of a bank (Manuel.com, 2010). This ratio is thus essential for this thesis, as it needs to be analyzed in order to see the health of the UK banks who are using Islamic financing tools, and thus to draw inferences for Sweden’s possible implementation.

### 3.3 Islamic Banking

Quoting Warde (2000), a definition of Islamic finance would be “Islamic financial institutions are those that are based, in their objectives and operations, on Koranic principles” (Warde, 2000, p. 4). Looking at Islamic banking, Howells’ characteristics for financial institutions, mentioned above, are also applicable.

The simplest way to describe an Islamic bank is to say that it is interest-free, but to give a fair explanation, it is not enough. The main principles are the following:

- *Riba* has to be avoided, which means that interest cannot be asked for since this is seen as usury
- *Gharar* has to be avoided, since this has to do with trades that involves uncertainty, risk, and speculation
- *Halal* activities has to be put in focus, which means it has to be allowed by the religion

What it comes down to is the focus on justice, and ethical and religious views. For example, when referring to Halal activities, no investments or projects involving weapons, drugs or alcohol may be carried out.

The principles of profit-and-loss sharing, and projects leading to social development through Zakat (almsgiving) are essential parts of Islamic finance. Zakat is through the Islamic world seen as a welfare system, since almsgiving is that of giving to those who are in need and hence improving their lives, i.e. redistribution of wealth (Warde, 2000, p. 144).
The profit-and-loss sharing, or “PLS”, rests on the belief that it is wrong that one party will risk to lose a big amount on interest rates on, for example, a loan to another party, and that profits and losses on that loan should rather be shared, hence the name “profit-and-loss sharing” (Warde, 2000, p. 5).

With the knowledge of these principles being explained, it could be of value to know how an implementation would go about. As this information does not exist for Sweden, other countries’ history had to be looked upon. Also, having knowledge about the situation in other parts of the world regarding this subject could bring insights as different views can be presented.

3.3.1 Previous Research

Looking through different data bases through the Umeå university library webpage, google.com and google scholar, it may not come as a surprise that there are more studies made regarding conventional banking than there are studies regarding Islamic banking, as the area of Islamic banking is not as well-known as the conventional one. Also, it was hard to find empirical studies, and rather theoretical studies were presented.

The first non-governmental Islamic bank was created in 1975, under the name of The Dubai Islamic bank. More banks were then started up throughout the Islamic world after the pioneering bank. Before this time, similar activities had been experimented with (Warde, 2000, p. 75). This was conducted undercover during the 1960s and first half of the 1970s, but as the political climate changed, these financial institutions could eventually come into existence in a legal way (Nehavnilawar, 2010).

The countries that have been looked upon are Malaysia and Pakistan. The reason for selecting these countries is because Malaysia was among the pioneers in the field of Islamic banking. Also, Malaysia is seen as a special case since the country operates under a dual banking system, i.e. under a conventional banking system and an Islamic banking system. The reason for choosing Pakistan was because it was the first nation to have Islamic banking practices at a state level.

As mentioned above, the first non-governmental Islamic bank was created in 1975. The pioneering countries experimenting with this kind of ventures were Egypt and Malaysia during the 1960s. In the year of 1983 Malaysia opened its first Islamic bank, Bank Islam Malaysia, and other banks also opened Shariah windows (Reuters, 2010).

Malaysia now had a dual banking system, where conventional banking and Islamic banking operated alongside each other. This was most likely necessary as Malaysia is a country of different religions. Nor Mohamed Yakcop, Special Economic Adviser to the Prime Minister of Malaysia, presented in his speech at the International Islamic Banking Conference PRATO, in Italy in 2003, the evolution of the Islamic financial system in Malaysia. Yakcop has created a timeline for Islamic banking and its implementation in Malaysia. From the year of 1983-1992, there was the period of “familiarization”, i.e. discovery, where the country experienced this, for the country, new system of banking. It grew stronger during those years, and also non-Muslims started doing their banking activities within the Islamic banking system.

From the year of 1993-2002, there was the period of “mainstream acceptance and pervasiveness”. This stage meant that Islamic finance had grown strong in the country and the
country now was using a dual banking system, meaning that the conventional banking system and the Islamic banking system were operating alongside one another. Shariah-compliant products can both be found within the Islamic banks, and as separate products within the conventional banks which have opened Shariah windows.

Yakcop continues stating that a banking system needs to have three elements, namely: a large number of instruments, a large number of institutions, and an Islamic interbank market. These objectives were all reached by the year of 1994 in Malaysia. Also, one year earlier, instead of having different Shariah councils within both banking systems, one Shariah supervisory council was set up to operate within the Central bank of Malaysia (Bank Negara Malaysia). This, in order not to cause confusion, and rather show clear guidelines. Another great realization was the fact that not only could the Islamic financial system regard profit and loss sharing, but Malaysia could also include other sorts of Shariah-compliant products, in order to create a thorough banking system with plenty to offer its clients. (Yakcop, 2003)

However, Rosly and Abu Bakar (2003) found in their study that as of 2003, the Islamic financial system was a bit too similar to the conventional system, as the ethical aspect was not emphasized enough, and hence this was something Malaysia needed to work on. On the other hand, it was during the period of 1997-2003 that the Islamic banking industry increased and got more efficient (Mokthar, Abdullah, and Al-Habshi (2006).

In 2004, one can say that a third phase started, as building on the facts already presented by Yakcop. From this year and ongoing, further financial liberation happened in Malaysia. Also, other foreign Islamic banks were let in the country by the Central bank. Here, a quote from the authors Haque, Osman, and Ismail (2009) is in its place: “Malaysia has emerged as the first country to implement a dual banking system, when Islamic banking system operates side-by-side with the conventional banking system. The Malaysian model has been recognized by many Islamic countries as the model of the future and many countries have shown interest in their respective countries”.

According to an article in Asean affairs (2008), the global financial crisis did not impact Malaysia as hard as countries with only conventional banking. The affairs in the Islamic financial system were still kept positive. However, they did have a decrease, but it was because in general on markets, trade decreased.

Another reason for the less severe impact on the Malaysian economy was since Malaysia had diversified their investments. Instead of keeping most if the investments in the US, they had also put investments in China and India who were at the time, and still are, emerging economies (The Malaysian Bar, 2010).

Also, the fact that Malaysia can sell their manufacturing to a relatively cheap price to the Western world and that many companies do outsourcing in Malaysia means that their economy could keep up. Malaysia was as of 2008 listed as one of the ten countries who were least affected by the global financial crisis (Business Pundit, 2008).

Pakistan initiated the path to Islamic banking in 1979, when they started to eliminate interest from certain areas within Pakistani banking. Two years later, all the nationalized banks, although conventional, started to have special interest-free counters to be able to operate and offer Shariah-compliant services for their customers. The following years more products became interest-free. However, since this transformation from the conventional system into
the Islamic system went so fast, it became slightly difficult to implement in the pace that the government wanted. It may take time for people to adapt and change their behaviour. Hence, the implementation was set on a timeline, in order to slow the execution down. Because of this failure, in the 1990s, Pakistan made a new approach with Islamic banking to the country, in order to try to implement it better this time (Akhtar, 2007). It was in the year of 1997 that the first full-fledged Islamic bank, Meezan bank, opened (Latif, 2009).

The state, as of now, is that Pakistan has both conventional banks and Islamic banks. Also, the conventional banks have the opportunity to offer Shariah windows or even set up Islamic banking subsidiaries.

The Central Bank of Pakistan, SBP, has made sure that customers should be able to trust the Islamic banking system in the country. They have done this through the creation of a Shariah Board within the central bank, Shariah Advisors within all the banks who offer Shariah-compliant products, and a Shariah audit system (Akhtar, 2007). However, there are still doubts about the legitimacy of the Islamic banks (Maqbool, 2010).

Pakistan did not get heavily affected by the global financial crisis. Exports got affected as around 30% is bought by the US, but still, no bigger change in the economy was noticed. The reason why Pakistan still does have some economical problems is rather that the country has an imbalanced account (Saleem, 2009).

As of now, the interest in Islamic banking is large in Pakistan, and this industry is expected to grow alongside the conventional banks. However, according to Ullah, a central bank official, the Islamic banks need to develop new products, instead of doing replicas of the products that can be found within the conventional system (Bloomberg Businessweek, 2009).

The latest couple of years, a trend has been noticed in Pakistan, where more and more people turn to Islamic banks. In June 2007 there were 162 bank branches providing Islamic banking, compared to June 2009 when this number had gone up to 528. Hence, more confidence has been seen in the Islamic banks.

In general throughout the world, Islamic banking remained least affected by the global financial crisis. It actually shows a high growth trend. This is probably due to the fact that risk is shared, and the avoidance of interest, among others. Hence, this is a way where a country could avoid a crisis. What seems to be the issue affecting Islamic banks, is rather a general domestic economic slow down (Aazim, 2009).

3.3.2 Market Estimation for Islamic Banking

This thesis focuses on the Swedish main banks’ opinions about Islamic banking and the possible profit making, within a European perspective. The Organization for Economic Co-operation and Development (OECD) has made a potential market estimation for Islamic banking in Europe, as of the year of 2005 (Islam, 2008).
<table>
<thead>
<tr>
<th>Country</th>
<th>Population (millions)</th>
<th>Muslim Population (millions)</th>
<th>Percentage</th>
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<td>France</td>
<td>61.00</td>
<td>6.10</td>
<td>10%</td>
</tr>
<tr>
<td>UK</td>
<td>60.00</td>
<td>1.8</td>
<td>3%</td>
</tr>
<tr>
<td>Germany</td>
<td>83.6</td>
<td>3.25</td>
<td>3.89%</td>
</tr>
<tr>
<td>Italy</td>
<td>56.00</td>
<td>1.39</td>
<td>2.5%</td>
</tr>
<tr>
<td>Spain</td>
<td>42.10</td>
<td>0.60</td>
<td>1.43%</td>
</tr>
<tr>
<td>Belgium</td>
<td>10.70</td>
<td>0.39</td>
<td>3.65%</td>
</tr>
<tr>
<td>Sweden</td>
<td>9.30</td>
<td>0.31</td>
<td>3.33%</td>
</tr>
<tr>
<td>Austria</td>
<td>8.50</td>
<td>0.22</td>
<td>2.6%</td>
</tr>
<tr>
<td>Denmark</td>
<td>5.60</td>
<td>0.19</td>
<td>3.4%</td>
</tr>
<tr>
<td>Cyprus</td>
<td>0.95</td>
<td>0.24</td>
<td>25.26%</td>
</tr>
<tr>
<td>Turkey</td>
<td>72.10</td>
<td>72.00</td>
<td>99.89%</td>
</tr>
<tr>
<td>Switzerland</td>
<td>7.80</td>
<td>0.25</td>
<td>3.2%</td>
</tr>
</tbody>
</table>

*Table 2 Potential market estimation for Islamic banking in Europe*

An own estimation based on numbers from June 2009 shows the following results:

<table>
<thead>
<tr>
<th>Country</th>
<th>Population</th>
<th>Muslim population</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sweden</td>
<td>9,292,359</td>
<td>446033</td>
<td>4.80%</td>
</tr>
<tr>
<td>UK</td>
<td>61,113,205</td>
<td>1650057</td>
<td>2.70%</td>
</tr>
</tbody>
</table>

*Table 3 Potential market estimation for Islamic banking in Sweden and the UK*

The population and number of Muslims in the UK were found at the CIA homepage (CIA, 2010). The Swedish population was found at the Swedish Central Bureau of Statistics (SCB) homepage (SCB, 2010). For the number of Muslims in Sweden, an assumption was needed to be done, based on an article in the economic magazine “e24”, where supposedly there are around 450 000 Muslims in Sweden (e24, 2010).

Since there already is a market for Islamic banking in the UK, and even pure Islamic banks, looking at these potential market figures, one could assume that an implementation in Sweden would be successful, also since investigations show that there is a demand for Islamic banking alternatives in Sweden (e24, 2010).

### 3.4 Islamic vs. Conventional

The main difference between Islamic banking and conventional banking has already been mentioned in this thesis; that the Islamic banks need to be Shariah-compliant, i.e. they need to follow the laws of the Qur’an.

According to Zaharuddin (2007), conventional banking creates debtor-creditor relationships,
whereas this cannot happen in Islamic banking since no one should be able to take advantage over someone else. So, as the main function of a conventional bank is that of lending money and getting it back with compounding interest, for Islamic banks it is that of getting to know their customers and their businesses, since the loans taken from some customers are aimed for business projects, and thus how these projects work out consequently affect the bank.

Other main differences he presents are the following:

- As the conventional banks work with interest rates when it comes to borrowing and lending between different parties, Islamic banks rather work with risk sharing between the parties so that no one can get a stronger position over the other party.

- If a customer is at default within a conventional bank, s/he has to pay an extra charge, whereas in an Islamic bank there is only a small charge, and this is then in turn passed on to charity work.

- As the conventional banks want to have a credit rating of a potential loan taker, this is not as important in an Islamic bank since what is more looked upon is the customers’ projects and the future outlooks.

3.5 Implementation Steps

There are banks that have combined conventional banking and Islamic banking, and one of the examples used in this thesis is that of HSBC in the United Kingdom (Schoon, 2009). Throughout the Western world, which is more in focus of this thesis, demand has increased for Islamic compliant products (Solé, 2007). Quoting Juan Solé with the IMF, there are four areas that need to be revised for Islamic banking to be introduced to a conventional bank:

1. Compliance with the Shariah law
2. Segregation of Islamic and conventional funds
3. Accounting standards
4. Awareness campaigns

The first step means that a conventional bank who seeks to implement Islamic banking needs to be certain that Shariah law is followed, and in order to know this, a Shariah board or a Shariah counsellor needs to be appointed. It is quite common that the same board is appointed for several banks, which can be seen as something positive since consistency is brought to the system. Also financial regulators need to be appointed in order to assure that the instruments and products used within the bank are Shariah-compliant.

In order for the different Shariah boards to act on the same rules internationally there are two institutions which have set guidelines that need to be followed. These are AAOFIF – The Accounting and Auditing Organization For Islamic Financial institutions, and IFSB – The Islamic Financial Services Board. The former sets standards for accounting, auditing, and governance, whereas the latter sets standards for the supervision and regulation of Islamic banks.

The second step implies that the bank who wishes to implement Islamic banking activities need to, in a transparent way, separate the conventional banking accounts, funds, and so on, from those of the Islamic banking. One can say that although the two banking systems are combined within a bank, the Islamic banking section forms a separate entity.
The third step is about the implementation of international accounting standards, since before this existed, there were problems with comparison between Islamic banks because they had to make their own accounting standards. That could lead to lack of transparency which now more easily can be avoided with these common standards.

The fourth steps talks about the importance of transparency and the importance of information about risks, opportunities, and so on, that needs to be given to the potential investors.

One can say that the implementation of Islamic banking into a country with conventional banking follows some general steps. The main steps in the process are (Solé, 2007):

1. Offering selected Islamic financial products
2. Licensing full-fledged Islamic banks
3. Introducing non-bank Islamic financial institutions and instruments

In the two first steps, a conventional bank sets up an Islamic window, i.e. the bank launches a few Islamic financial products in order to see the response of the market. If the bank notices a positive response to the Islamic window, they can expand to open an Islamic financial subsidiary within their bank. If this subsidiary is doing well enough it can be detached from the conventional bank in order to create a full-fledged Islamic bank. This action can help credibility in the bank since otherwise there might be opinions about the subsidiary and that its capital comes from the conventional bank.

New regulations need to be included, and also the conversion of conventional balance sheets to Islamic Shariah-compliant accounts, along with all financial products, when an Islamic banking subsidiary will become a separate bank.

The last step for expansion for an Islamic bank would be to enter the markets for insurances, investment funds and sukuk, and derivative instruments. These are the main areas although there are other Islamic financial products on the market which are introduced at a continuous basis. This last action would mean a full Islamization of the financial system, based on religious and political grounds (Solé, 2007).

As of now, step two and step three seem irrelevant for Sweden and this thesis, since Sweden as a country is not a Muslim country, and only has a few percentages of a Muslim population, and thus it is assumed that demand will not be enough as of now and in a close future. One of the things investigated in this thesis is whether implementing Islamic finance into conventional banks to some degree could be profitable and it is hard to believe anything else than that this first step would be of interest.

3.6 Islamic Financial Products

Given that there are differences between Islamic and conventional banking, also the financial products differ in some ways. It is important to look at these differences as they need to be taken into consideration as a possible issue if the Swedish main banks were to implement Shariah windows. These are presented in order to clarify how the same products are adjusted for the two systems.

- **Mark-up schemes**, ex Murabaha: when a customer wants to buy something, for example a house, s/he asks the bank to buy it for him/her, and the bank then adds a mark-up profit for this, in excess of the cost of the house (Warde, 2000, p. 133). The conventional banking counterpart would be that of an original interest bound loan.
- **Leasing**, or Ijara: the bank leases an asset to a customer who pays a specified rent (Warde, 2000, p. 134-135). This technique is similar in conventional leasing.

- **Profit-and-loss sharing**: the borrower and lender forms a partnership in order to share profits and losses in a venture. The bank then gets part of the profit when the venture is running. It exists as Mudaraba and Musharaka (Warde, 2000, p. 135). The counterpart in the conventional system is that of venture capital.

- **Stocks and bonds**: the Islamic bonds are called Sukuk. Interest can not be earned on these bonds. The issuer of the sukuk sells it to a buyer who then rents it back to the issuer for a fee. The issuer then has to buy back the sukuk at an agreed upon date at par value (Investopedia, 2010). There are also bonds called muqarada, which means that the bank creates bonds that will finance a specific project. The investors then enter into a state of profit-and-loss sharing (Warde, 2000, p. 143). Regarding the stock market, Dow Jones created a list with companies who were considered Islamically conscientious investors. The companies are screened in order to be sure that they are Shariah-compliant, and hence an index for this kind of market exists (CME Group Index Services, 2010). The counterpart in the conventional system are stocks and bonds, where the latter can either earn interest or be free of interest.

- **Derivatives**: the value of derivatives is derived from an underlying asset, and is as Warde states “bets on interest rates, currencies and commodities that result in real cash obligations or rewards”. They are supposed to be used as hedging against risk. It may then sound like derivatives cannot be used in Islamic finance, but there are ways around it, for example a derivate of zero-coupon bonds, or salam, which is like a forward or future contract. It is still a bit contradictory though since a lot of gharar (uncertainty) exists and not all derivatives in the conventional markets can be used (Warde, 2000, p. 139-140).

- **Islamic mutual funds**: they work as a conventional mutual fund, where investors pool their investments in order to make bigger profits together. Within the Islamic financial world, what is further added is that mutual funds also look for non-economic criteria so that they are Shariah-compliant (Warde, 2000, p. 141-142).

- **Insurance**: insurance was prohibited at first as it was the general opinion that it included uncertainty and interest, and also the derivation of profit. Nowadays there are Shariah-compliant insurance schemes, although some modifications have had to be done. The general principle is that of takaful, which means solidarity or mutual guarantee. This has then been combined with the profit-and-loss sharing, mudaraba. An example would be that premium payers can become partners in the insurance company and in that way be in the profit-and-loss scheme. Also the view of life insurance is seen differently now as it is rather seen as a help for the survivors than just a way to gamble on misfortune (Warde, 2000, p. 147-148).

### 3.7 New Service Development

After the presented list of Shariah-compliant services, the theory of New Service Development (NSD) was considered relevant for this study, as the banking sector belongs to the service industry. The theory could work as an aid if the Swedish banks were to consider
introducing some Shariah-compliant financial products.

NSD has four basic characteristics (Wilson, Zeithaml, Bitner, & Gremler, 2008, p. 189);

- **Objectivity**
- **Precision**
- **Driven by facts**
- **Based on methodology**

Often, the wish of implementing new services is based on subjective approaches, but instead an objective approach must be taken in order to assure that there is demand for the new service (Wilson et al., 2008, p. 189). In regards to the focus of this thesis, the Swedish main banks need to increase their knowledge about this potential market by performing various market researches. It is essential to figure out whether there is a latent customer need before even considering an implementation of a new service (Matthing, Sandén, & Edvardsson, 2004, p. 479).

When it comes to precision, it is important to state clearly what the new service entails (Wilson et al., 2008, p. 189). As stated in the purpose of this thesis, Swedish banks need to be made aware that they can also attract non-Muslims by carefully following this characteristic in combination with suitable marketing.

There has to be an open relationship between customers and employees in order to create a dialogue of what the customers want and what the employees can achieve given organizational issues (Wilson et al., 2008, p. 189). The customers can and should be seen as an opportunity (Matthing et al., 2004, p. 479) as without customers’ new needs, there cannot be any development within a business, in this case banks.

When it comes to the criteria of methodology, Wilson et al. (2008) refer to the involvement of all employees in the organization when introducing a new service, in order to ensure a thorough analysis and hence a correct final launch. It is of importance that the Swedish banks, if they were to consider implementing new services, involve practically all employees so that they understand and participate in the process. This has to do with the credibility of the bank, since all employees are part of the actual service.

Wilson et al., (2008, p. 190) also states different types of services:

- **Major or radical innovations** – which means there are completely new services
- **Start-up businesses** – which are companies with new services for an already existing market
- **New services for the currently served market** – which is when a company want to expand their services to existing clients
- **Service line extensions** – when the existing services are extended
- **Service improvements** – when existing services are changed for the better
• *Style changes* – this innovation does not change the service, but rather the appearance

If Sweden was to implement Shariah windows in the main banks in Sweden, according to these different types of services, it would fit under the division of “New services for the currently served market”, as this would be a new service for the customers in the Swedish main banks.

There are two main steps in NSD, which are those of “Front-end planning” and “Implementation”. Front-end planning includes different stages concerning the development of strategies and ideas and how these are evaluated and analyzed. This needs to be done thoroughly before passing on to the next step which is that of implementation. The different steps of implementation include those of testing the service in the market and finally to commercialize the service if seen as successful (Wilson et al., 2008, p. 191). What has to be remembered throughout the whole process is that both the services, customers, and the possible achievements of the company, for this particular study, banks, are able to interact.

3.8 Customer Segmentation

If banks are planning to introduce a new alternative service, a customer segmentation analysis as well as a target market needs to be decided upon beyond the factual presentation of performance indices and steps of implementation. Ultimately, combining the data collected will provide for a base of the conditions needed to open up the door for implementing Shariah windows in conventional Swedish banks.

The first step to take, deals with the issue of market research. The several variables that need to be considered include the market factors such as customer demand, market size, and customer segmentation, to mention a few. In order to correctly implement the new service of Islamic-compliant solutions, a research concerning its relevant market needs to be evaluated. Accordingly, narrowing it down from profitability measurement to determining a proper market research will inevitably move into the matter of customer segmentation, and this, in turn, will touch upon the issue of diversification in the customer base.

The theory of customer segmentation involves the definition of the target group and thus, the target segmentation chosen for this study (Kotler, 2002, p.340). The idea is to find where the demand lies, and to create a suitable design for properly endorsing a new service, and in this thesis, Shariah windows. The balance of trying to satisfy a certain demand while deciding upon relevant communication tools, has its starting point in determining the target market. This, in order to avoid unnecessary funding of marketing and also to avoid overflowing the public with new information. As stated in the article by Machauer and Morgner (2001), “the goal is to solve the conflict between the intentions of to satisfy customer needs as individually as possible but also to allocate marketing resources as economically as possible” (Machauer & Morgner, 2001, p. 6).

A method of finding out a segment that would show interest for Islamic-compliant services, is to utilize the means of surveys in the four main banks in Sweden, in order to locate possible homogenous response patterns within the population (Machauer & Morgner, 2001, p. 8). It can include the attitudes and expectations a customer has on her/his bank, and through this, inferences concerning the customers’ main values can be drawn.

For this particular thesis, simple demographic customer segmentation seems to be inefficient,
as the demographic attributes of a customer do not involve their attitudes towards interest-free banking services. Moreover, a more specified allocation of the target market and segment for this thesis needs to be done, due to the fact that the entire Swedish population cannot be held as a target population as well as the target segment. This is based on the matter that the four main banks’ customers involve all ages, from new-born babies, to elderly people, and so a target population should be limited to including customers over the age of 18.

As concluded by Machauer and Morgner (2001, p. 16), a heavy consideration and evaluation of the segmentation approach, needs to be completed, in order for the bank to gain beneficial knowledge about the population and the way it should be sectioned to fit this study. Also, by consistently regarding the theory of customer segmentation, the Swedish banks will acquire advantage, which is relevant for moving on with the process of targeting and launching a new product. Kotler (2002, p. 340), offers four criteria in order to measure and assess the quality of segmentation and targeting chosen, namely measurability, accessibility, sustainability, and actionability. An analysis of these criteria, in regards to this study, can be found in section 5.2 of this thesis.

3.9 Risk

A possible implementation of Shariah-compliant services within the Swedish banks, need to be evaluated concerning risk and uncertainty. Introducing new services carries risk, as despite of if the bank has made a thorough market research, the demand side may not respond to the new services when launched on the market.

Howells (2008, p. 7) defines risk in a financial context as “the probability that outcomes may differ from what was expected”. He continues describing risk and uncertainty from a portfolio perspective, i.e. that financial customers need to diversify their assets in a portfolio, in order to decrease risk (2008, p. 15). However, not all risk can be diversified away. Risk can be divided into systematic and unsystematic risk. The former regards the occurrences on the market, and hence cannot be affected by the individual investor. It means that this systematic risk cannot be diversified away. Unsystematic risk, however, can be diversified away. It regards the individual investor’s choice of assets in order to manage risk. The more diversified the portfolio, the more the decrease in risk of that specific portfolio (Investopedia, 2010).

What has been described above can also be applied to a deposit-taking institution, in this case, a bank. A larger customer base means more deposits which are distributed differently, and hence can be more diversified (Howells, 2008, p. 15-16). A bank needs to diversify its assets in order to keep operating, since otherwise, it will lose its clients and run out of business. Howells (2008, p. 16) also states that a bank also offers “specialist expertise”, meaning that the banks´ customers do not need to do much research themselves, as the employees of the bank are handling that matter. In connection to Islamic banking, this can be even more important, if the bank would have customers that are not used to those kinds of services and may see them as more complex.

If a bank was to add on Shariah-compliant services (if demand exists), this could lead to a risk-reduction, as the operations of the bank would be spread on more accounts than those already in use. As has already been mentioned earlier in this thesis, in section 1.1, the Islamic banks throughout the world did not get as affected by the global financial crisis as conventional banks. Also, if a bank was to open Shariah windows, there is a possibility that
foreign customers would be attracted. This would mean a larger customer base, more funds, and also a reduction in risk, as asset would be even more widespread.

From this section, diversification keeps getting mentioned. Risk is very much connected with diversification, and hence the theory on diversification has also been included in this thesis, as can be seen below.

### 3.10 Diversification

The issue of diversification within a business is discussed in Leontiades’ article (1990), where the distinction between nonspecialized and specialized diversification is made. For this thesis work, the latter is applied in the sense that the Swedish banks’ opportunity of expanding on their existing operations and offering a new alternative service is investigated. Thus, the specialized area of banking is held the same, where merely an opportunity for expanding services is contemplated. Leontiades presents several efficiencies which would be created by diversification and these have been generally applied to fit this thesis (1990, 26-28):

- advantages of size plus scope
- improved financial efficiency
- efficiency of resource allocation
- international efficiency

The first advantage refers to the easiness of shared production facilities, distribution channels, and sales forces used when implementing new services to a business. The second and third deals with the enhancement of capital allocation and efficiency of investments, when applying it in this thesis’ context of Islamic-compliant services. Finally, the fourth refers to the increased competitiveness of a business on international grounds if utilizing the tool of diversification. However, this will not be discussed in this work, as it lies outside the scope and area of this thesis.

Elaborating on the subject of diversification, the issue of customer diversification is entered, which refers back to the target market and the segmentation chosen. If Swedish banks would consider implementing Shariah windows, they would consequently increase the variety of potential customers and hence improve their customer base. As stated in the first chapter, Islamic banking is not a limited system to be offered for Muslims only, on the contrary, it is meant to act as a window, a Shariah window, for any customer who relates to its principles. That is why the theory of diversification of both operations and customer base in the Swedish banks can be applied to this kind of research, in order to answer the problem formulations and finally give feedback on the purpose of this study.

The theories chosen are used in order to ease the assessment of the new alternative services of Islamic-compliant solutions. For the Swedish banks, the theory of NSD will provide an approach of how to launch a new service, by offering guidelines for the process of implementation. This includes conducting a business analysis, where the profitability of the new service is measured. Looking at the customer segmentation theory, the authors of this thesis found its application to be relevant, since a suitable market segment is necessary to allow for proper targeting. All segments in a market need to be analyzed in order to not miss out on potential customer groups, and in this thesis, the case of including non-Muslims as well. This leads to the theory of diversification, which is important to consider, as an opportunity of increasing the customer base is presented. Presenting Islamic-compliant
services as being products for both Muslims and non-Muslims, would possibly add to the variety of the banks’ customers. Through this, a reduction of probable misplacement of potential customers can be achieved. Hence, risk has the opportunity of being decreased.

According to the theory of New Service Development, Shariah windows would be categorized as a new service for the currently served market in Sweden. By accumulating financial data, a possible opportunity for profitability in the already existing market economy, can be indicated. Furthermore, the information obtained through the interviews will state the reasons for not implementing Islamic compliant services. Adding the integration of the diversification theory, risk theory, as well as the customer segmentation theory, a suggestion of proper targeting and the benefits of it will be reached. All these combined, will help in the formulation of the conditions needed for putting Shariah-compliant services in the Swedish banking system into practice.

3.11 Criticism of Sources

All the sources used throughout this thesis have been carefully picked to provide depth for this thesis and to offer appropriate support of the facts stated, and so the dependability of these resources need to be evaluated. According to Ejvégård (1996, p. 59-61), there are four criteria to be checked when assessing the sources’ reliability, that is:

- authenticity
- independency
- recency
- contemporary

Various resources have been used in this study, from course literature to online websites, and since most of these sources used are either published articles or university course literature, they have proven their trustworthiness. Hence, the level of quality of the sources used are widely accepted and regarded as authentic and thus reliable. It should be mentioned that the discussion of Islamic banking has only been going on for a couple of decades, and so on some matters, there has not been a great variation of sources, and also, some fields are un-existing.

The criterion of independency deals with the matter of applying first hand information, meaning the originality of the sources utilized. The authors of this thesis have restricted the usage of resources to only employing the initial source, in order to increase the level of independency and ultimately to refrain from taking something out of its original context.

Examining the topic of recency of the literature used, it is very clear to see that almost all sources are published works of the last decade. This refers back to their degree of recency, which can be stated as holding a satisfactory level. Since they are current in their time frame, the studies and conclusions drawn are founded on an up-to-date background and data collection, which enhances their level of relevance to this thesis work.

The last criterion to be checked deals with the issue of the sources being contemporary or not. By virtue of the previous research used in this thesis, the studies examined have been conducted during modern and relevant times. Most are involved in the time period of 2000-2010, and thus equally take into consideration all the events of this specific decade. This indicates that the sources used and this written work are correlated in a sense that they both deal with a similar time period and hence add to each other’s gained knowledge.
4. EMPIRICAL DATA

In this chapter we will present the data gathered from the interviews and the ratios collected from the annual reports of the Swedish and UK banks of choice. The reader will be able to see the results obtained from the chosen methods. Furthermore, definitions of the ratios used will be given, in order to provide for a better comprehension of the financial aspects of this thesis. By conducting interviews and a financial analysis, the purpose and problem formulations will be answered.

4.1 Results of Qualitative Interviews

There were three telephone interviews performed, namely with Swedbank, SEB and Handelsbanken for the Part 1 interviews. For the part 2 interviews, only Swedbank gave a telephone interview, whereas SEB and Handelsbanken chose to reply on e-mail. JAK, and Baker & McKenzie were interviewed through the use of a telephone. Nordea chose to answer the interview guide through e-mail both for part 1 and part 2. The results from the interviews will now be presented for each bank. To give a background, the interview guides can be followed. They can be found in the appendices of this thesis.

4.1.1 Baker & McKenzie

The interview with Baker & McKenzie was made with Leif Gustafsson, partner in Baker & McKenzie.

The amount of Shariah finance has gained very large importance throughout the world. The biggest area in Europe for this kind of finance is that of the UK. Also Germany, The Netherlands, Italy, and Spain offer some Islamic financing. Baker & McKenzie in Stockholm has, as far as Leif Gustafsson could recall, only handled a few minor requests regarding Islamic finance. Nevertheless, the Islamic banking market is of great importance to the Baker & McKenzie offices, notably in London and Abu Dhabi.

A seminar was set up in 2008 by lawyers from the offices in Stockholm and the Abu Dhabi on the subject of Islamic finance. The topic was quite new in this part of the world, and hence exiting. Around 50 guests participated, consisting of employees from the main banks in Sweden and others interested in the subject. The participants were aware of Islamic banking, but more information was needed as there were many questions among banks and others as to the more specific details of the subject. One of the main issues was how one could fit an Islamic financial system into the local laws of Sweden. The legal and tax issues were seen as key elements that needed to be cleared. The Swedish Financial Supervisory Authority (FI) did at the time a review of the implications that could occur.

At the time, there was an increased discussion in general in society of the subject matter. Also, people who had attended the seminar had follow-up questions. Furthermore, articles about the subject matter were published in news papers.

Whether there is a future for Islamic banking in Sweden or not, is a difficult question to answer. One must ask the banks who are handling the actual market, but as of now, demand is not stable enough. If the Swedish banks one day would want to implement Shariah windows and if they notice that there is a sufficient demand, there are a few issues that need to be
tackled first. The main issue concerns the compatibility with the tax legislation. Additionally, the system is complex, leading to a long learning-curve. The banks would need to develop the skills, before having the right to handle this kind of finance, even though there is a very deep base of knowledge in the financial centres that could be disseminated.

According to Leif, the customer group for Islamic financing would normally not be the general public. Rather, it would be in transactions involving Shariah based and non-Shariah based businesses, for example regarding export financing and other sorts of financing required mainly in the areas where Islamic finance is seen as the model. It is then essential to understand the local rules in the country where the finance is going to take place. The way the system is built and the understanding of the requirements of a certification has to be done through a Shariah council.

4.1.2 Shaher Abbas at IFAAS

The opinions below were brought forward by Shaher Abbas, the director of Shariah-compliance & product development at IFAAS. The interview was conducted through the use of voice skyping, which is a replica of a telephone interview.

The operations of IFAAS deals with consultory services specialized in Islamic banking, as the abbreviation stands for Islamic Finance Advisory and Assurance Services. Hence, they only work with Islamic banks or banks looking for implementing Shariah-compliant services. The usual manner in which this is initiated is that IFAAS initiate the contact and offer suggestions for improvements or aid in implementation when launching any Islamic banking services. The actual banks can also reach out to IFAAS themselves if wanting any help or guidance concerning the matter.

According to Abbas, the history of Islamic banking in the UK started out with Al Barakah bank in the late 1980s, which was then followed by Al Ahli bank and HSBC, which was the first to offer Shariah windows in the UK. More recently, the Islamic Bank of Britain was established back in 2004. In regards to the interest for the thesis, Abbas states that the biggest window banks in the UK are HSBC, Lloyds, and Al Ahli bank. However, something that needs to be emphasized is the proper definition of what can be constituted as a Shariah window. Conventional banks offering one or two services, as in Lloyds’ case, cannot be called a window. Though, if a bank has a wide range of Islamic services and thus offers Shariah windows that entails several areas of the bank, it can be called a window, such as the case of HSBC. The actual standards for being called an Islamic window is when it holds a good amount of services that follow the Shariah principles, correct marketing and labeling of the services, and a specially formed Shariah board who will investigate and monitor the correct implementation and usage of the services.

It was in the 80s and 90s that the interest for Islamic banking came about in the UK. This was stimulated due to the number of Muslims requesting such services, and the customer base consisted then of 2 million. This demand was brought forward by the community, who set up a lobbying committee who identified the obstacles to the provision of Islamic housing finance from taking off, as well as came up with recommendations to the government to make the changes needed. The government eventually responded in 2003 by making the changes needed in order to allow for Islamic banking.
When it comes to any previous research that was followed during the implementation, Abbas states that this lobbying group made plenty of research themselves to gather all the information required and to ease the work for the government. However, which specific country that was looked upon as reference is not known. Abbas gave the tip of looking at the cases of France and Spain, who are both nations that are going through changes at the moment as the UK did, in order to realize an implementation of Islamic banking. With these facts presented, Abbas means to justify the actual spreading of Islamic financing in Europe, as he himself attended conferences in Spain concerning the matter.

The preparatory work of an implementation is as mentioned above, where the lobbying group takes responsibility for identifying the issues faced and then presenting them to the government to make the changes required. An important fact to keep in mind is that the group actually consists of members from the government, staff from banks, as well as representatives from the Muslim community, which allows for a broad spectrum of a group, representing all necessary perspectives combined. Abbas means that this style of method is the appropriate one to be adopted by Sweden if an implementation was to be realized. He continues by stating that collaboration between IFAAS and the Swedish law firm MSA is currently taking place in order to pull through with an implementation, and conferences are to be booked to discuss this matter during the coming fall.

As the Muslim population is the biggest market in focus, the information on this new system was given to them while Abbas was working at IBB (Islamic Bank of Britain), back in 2004. This was done over the counter by talking and informing about what is “halal” in business and banking. Eventually, in 2005, people had heard about Islamic finance and became more familiar with it, which changed the type of questions posed into actual wonderings of how much it would cost, how to get an account, what does it mean to the customer, and so on. This proved that the public had increased their understanding of the mechanism of Islamic banking and were ready to join the movement of it.

Regarding the spreading of the knowledge of Islamic finance to bank employees, Abbas explains that this is where his current company IFAAS comes in to train the staff of banks on this matter. IFAAS ensures that the banks staff explain the Shariah services and Islamic finance correctly, and that they make sure the clients know what they are entering into and what type of agreement and benefit it contains.

The way in which banks do their marketing and segmenting is by involving different methodologies and styles of marketing, usually by dividing the target market according to income: high network people, affluent people, middle-class, and poor. Non-Muslims were not targeted initially, as the main market in the UK is Muslims at the moment, since this new niche system is actually an Islamic initiative. However, Abbas means that non-Muslims get attracted by the ethics involved in Islamic finance, and also through the different use of language, as IBB provides various languages such as Arabic, Hindi, Somali, Urdu, and more. All these cultures include both Muslims and non-Muslims, and by the sharing of community, language, and background, information is shared amongst them, and that was one of the ways Islamic banking was reached to non-Muslims. In addition, Abbas states that by providing different languages, IBB managed to attract more than just Muslim customers and hence attracting non-Muslims as well. Moreover, when banks decided to target a population, they would include the advertising on, amongst others, Indian channels, which are seen by both Muslims and non-Muslims, and that would be another way of attracting non-Muslims. The actual advertisement methods used in the UK are through Muslim newspapers, Muslim
channels, and through mosques. Conclusively, the target market was focused on Muslims solely, however by the ethical codes of Islamic finance, non-Muslims were attracted too and hence worked as bi-products of the marketing.

Moving on, on the question regarding the interest in the Swedish market, Abbas explains that while working at IBB, they were invited to Sweden by the Muslim community who set up an Islamic finance conference, which was suiting as IBB at that time was planning to take out the European market. Upon arrival in Sweden, they performed research on the Muslim community in Sweden and how it works. This was done by firstly having a meeting with the law firm MSA to speak about the legislation and the ground legal framework in Sweden to understand the changes required. Secondly, a meeting with the Stockholm central mosque was done in order to get a grasp of the Muslim community’s size and actual demand for Islamic banking, where the response was that demand is high. Here, Abbas and his colleagues were referred to speak with the bank JAK, which was done, and followed by a meeting with the Swedish financial services authority, to gain knowledge from various perspectives. The conclusion after all their research was that there is an actual potential market for Islamic banking in Sweden, but with a market size being quite small, the absolute number of demand is the determining one. Abbas continued by stating that the Swedish market is relatively small compared to the UK, so a new Islamic bank would not be suggested. However, implementing Shariah windows would definitely be recommended to the conventional banks, for the apparent demand, but also because the set up costs are very small and the banks can start up with just one or two Islamic services as a start. Abbas means that this would create new markets for the Swedish banks and thus increase their competitive advantages.

Then why have Swedish banks not followed the movement of supplying Islamic services as the rest of the Western world? Abbas’ answer to this is that firstly, the main Swedish banks will not usually be interested in small markets, but also, secondly, that they plainly do not know how to go through with it, rather than decided not to do it. A market for Islamic banking is seen, but without proper knowledge on how to go through with an implementation, the interest is dropped. And here is where Abbas and his colleagues at IFAAS come in, where whenever a decision of implementation has been made, IFAAS will help with the application of this new system. Abbas also states that, together with IFAAS, he is currently in communication with Sweden concerning the offering of a couple of Shariah-compliant financial services within conventional banks and the results are yet to be seen by the public.

Lastly, he means that Sweden would benefit by offering Islamic banking services targeted at first and foremost Muslims, but considering the growing customer base of the bank JAK, surely a marketing strategy can be done towards non-Muslims as well. This would be seen as more of a strategic move, which is a step after the deciding of a marketing plan and thus followed by two strategies: selling to Muslims as an Islamic service, and selling to non-Muslims as an ethical service. The marketing should proceed in a manner utilizing Islamic marketing, such as through mosques and the Muslim community association. Eventually, this can develop into marketing of “ethical” services compliant with Shariah, in order to include non-Muslims as well.

The proper tools for implementation in Sweden are difficult to state right away, as each country has different laws and regulations to follow, thus a service needs to be designed to fulfill both the Shariah requirements, but also the nation’s laws. Abbas states that ideally, the best model to finance houses is “diminishing mosharakah and ijarah”, which is a diminishing partnership with leasing, as this one requires that the law recognizes the trust; banks would put their share of the product (the house) in trust with the client, and this is something that
needs to be checked in the Swedish law. The similar problem was seen in France, but they managed to introduce the concept of trust, and so a fulfillment of this model was accomplished and running.

Abbas continues by stating that more tools for aid are offered by IFAAS which includes help in speaking to the solicitors and the government and making sure to have documents for a contract that is Shariah-compliant as well as answering to the Swedish law. Principally, IFAAS deals with the banks to help them with the tools and correct implementation, but also to help the government get through the changes required. Increasing awareness is done through the training of the government as well as the banks, with a final emphasis on sales and operations training.

In regards to risk when evaluating this way of doing business, Islamic banks are not allowed to take as much risk as the conventional banks, and they are not allowed to gamble like the conventional banks. Therefore, their investment is safer. Consequently, Islamic banks have their favor in the investment side, regarding where and how they do investments, in comparison with the conventional banks’ ways of investing. However, Abbas states that this does not mean that the client is safer, as the relationship between the bank and the client is that if the bank makes a loss, the client might have to carry some of the risk, but that depends on the product they choose, as in funds for example (equity funds, stock market, and so on). Thus, the strategy of a client and their sense of risk taking, affects the level of risk for them in regards to the banks’ investments. Nonetheless, in terms of the model they use for investment, Islamic banks are undoubtedly better than the conventional banks, since the Islamic model includes plenty of rules from a Shariah point of view, which prevents the bank from going into transactions that have any gambling elements or uncertainty elements to it, meaning that the rules prevent the banks from taking extra risk which is not necessary.

Abbas states that profit made by Islamic banks is referred to as an added value in Islamic finance, which comes about when providing for the community and distributing the wealth in a more equitable way, something that conventional banks do not do. Hence, profit is not solely defined in terms of money owned, but more importantly, profit is measured in terms of well-being for the community as a whole.

4.1.3 JAK

Since JAK is not a conventional bank, but rather a membership bank, other questions were used for this telephone interview, with the CEO Johan Oppmark. The questions can be obtained through the appendices.

The basic idea appeared in 1965 in Denmark. The economy was not the strongest and people had troubles accumulating enough money in order to repay the interest added on their loans, especially since interest rates were very high at that time. Equally, because of these high interest rates, people could not afford to take loans. Consequently, a discussion was instigated among the public about the evident harmfulness of interest rates. Later on, Sweden embraced the Danish idea, and in 1998 JAK got registered as a bank. The way of communicating this new system of banking and its new services, was through their reliance on word-of-mouth. JAK also continuously offers seminars, an updated website, and several information leaflets.
The theoretical model that JAK is based on was created by mathematicians. They created a savings and loans system, where the customer can gather “savings points”. They are in turn used instead of interest when a customer wants to take a loan. Solvency and safety measures are also looked upon before a loan is given.

Regarding the customer profile, 50-60% of them are those who are home owners within Sweden. The most important segment for JAK is however young people between the ages of 18-20, since this is the time period where people start moving out and have to manage their own economy.

Johan states that compared to Islamic banking, JAK has the same foundation, i.e. interest free operations. They also have something called “stödsparande”, which has similarities with Islamic banking principles in that people help in giving funding in the form of loans to particular projects.

Looking at the future for JAK, they want to expand their internetbank activities, and that people should get a better understanding for the economy and financing, and realize that interest is harmful.

As a concluding tip in case the conventional banks would like to implement Shariah windows in Sweden, Johan suggests that this way of banking should be called something else than “Islamic”, so that people will not get stuck on the religious aspect but rather think further concerning the principles.

4.1.4 Swedbank

Part I

Swedbank’s opinion is brought forward by Diviesh Vithlani who is the Head of Competitive Intelligence.

Swedbank is aware of the increasing popularity of Islamic banking throughout the Western world and the UK is here brought forward as the country that has been given the main focus regarding this matter. The bank’s general opinion on the subject is that it is a very interesting market, hence their awareness of its popularity, but equally very complex. When it comes to the Swedish market, they have not noticed a huge demand for these products. Every once in a while, people ask about Shariah products, but despite these occasions, no real pressure has been noticed.

Diviesh states that there is some confusion about what is doable and what is not for Swedish banks, because of the lack of standards. In addition, he claims that there are different interpretations from different religious leaders, so called Imams, which adds to the confusion when considering the opening of Shariah windows.

In regards to possible profitability if implementing these new services, Diviesh states that the issue of unknown demand is the problem. He says that Swedbank has been in contact on several occasions with different organizations where target groups may be found, however it has always shown to be difficult to estimate how big the actual demand is. This, as it is not known if all Muslims would be interested in Shariah-compliant services within the bank. On the other hand, Diviesh admits that the bank has not looked into the matter of possible non-
Muslims being interested in Shariah windows. Nonetheless, if an increase in demand is noticed, then an extended research on both Muslims and non-Muslims will be looked upon.

According to Diviesh, Swedbank feels that it is still a bit of a challenge for them as a non-Islamic bank to be able to give out these types of products with the respect needed. Furthermore, it might be a bit complicated to open an Islamic window, since that money need to be kept on a separate account, thus solely having an interest-free account is not good enough. Diviesh means that many factors need to be considered and followed in order to properly concur with the Shariah laws. Hence, the reasons for not implementing Shariah-compliant solutions are that of limited knowledge of Shariah laws and how to satisfactorily employ them within conventional banks, but also the lack of standards. Additionally, the low demand for these services has evidently been a reason for not following the international movement of applying Shariah windows. Accordingly, Diviesh states that the reasons just mentioned are equally the conditions that need to be fulfilled for Swedbank to implement Shariah-compliant services.

Concerning the marketing of such new services if an implementation would take place, Diviesh responded that hypothetically and ideally speaking, they would collaborate with the Islamic organizations as a means of communication tool, and also use the widespread net of local offices as a way of communication, through the use of their employees. Essentially, the main target market would be Muslims through mosques in order to allow for the precision of segmentation and the encouragement for increasing the size of the demand. Moreover, as mentioned earlier, the matter of informing non-Muslims would also be an alternative for Swedbank. This would mainly be done through informing customers in local offices and using a marketing way driven by facts and not so much on the religious aspect. Diviesh means that by the effort of trying to involve and welcome all groups of people, diversification would be an obvious aim to stimulate for the bank.

In conclusion, Diviesh states that Swedbank is not so much aware of the movement of Shariah services within Swedish banks, however they are keeping themselves updated about an eventual demand and on the discussion concerning Islamic banking. But what he stresses is the need for knowledge and proper training in order to correctly apply and use Shariah windows. Also, a set of international standards need to be elaborated as to facilitate an eventual process, before Swedbank would even consider opening a Shariah window. As of now, Swedbank is not planning on doing an implementation.

Part 2

Swedbank’s opinion is again brought forward by Diviesh Vithlani, who is the Head of Competitive Intelligence.

The manner in which a new service is developed within Swedbank is initiated internally, meaning ideas are brought forward and accepted from their own staff. The bank recognizes its own competence and experience to be able to develop new services. However, first and foremost, the service development unit of Swedbank follows the trends of the financial world in order to spot any possible new implementations. It is the general way of acting, by observing what other players of the field are doing both in the EU and the rest of the world. The common manner of staying in the field is to continuously keep updated of the competitors and to follow demands of the public, in order to keep a competitive advantage in the market.
Employees at various offices are also welcomed to bring forward any new ideas for service development, as they are the ones primarily dealing with customers and their demands.

Regarding their customer base, Diviesh states that Swedbank is very pleased with their size. Within certain areas, such as Private Banking, where medium sized companies are being helped to grow through regular financial counselling, Swedbank actively seeks out new customers. Either they purchase different types of information on various branches and look to spot any successful customers who would fit to be a part of Swedbank’s Private Banking, or, more commonly, the staff of Private Banking would check to spot customers via the local Swedbank offices through their internal networks. Subsequently, Swedbank does actively seek out to widen their customer base.

Moving on, the actual steps followed whenever Swedbank decides to include a new service involve firstly a thorough evaluation of the product in the form of campaign material, intranet, and in-house television broadcasting displays the new products. Afterwards, the product is launched and both internal and external introduction of the product is available.

When it comes to risk, Swedbank defines it according to the product. Diviesh states that it is of importance to measure what type of risk a product carries with it, in regards to the customer, and whether it lies within the frame of rules that Swedbank follows internally. However, also external rules from FI are to be followed. Moreover, a product should involve a risk that the customer can comprehend, and so if they are too complex, then no launching will take place. A crucial rule of thumb is to make sure that the customer understands what they are buying, meaning they recognize the level and kind of risk attached to the service bought. This helps in the cycle of service development. Additional risk that Swedbank considers is the risk of reputation, which states that a product cannot hold such risk that could jeopardize the brand name if shown to be unsuccessful. Any new product cannot involve risk that would jeopardize the bank’s financial position.

Concerning ethical products, Diviesh states that they have several services holding ethical characteristics. Firstly, Swedbank has a wide option of ethical services in their field of funds, with examples such as environmentally-friendly funds, sustainability-driven funds, and ethical funds avoiding investments in companies running revenue on tobacco, alcohol, weapons, gambling, and pornography, to mention a few. In addition, ethically-minded services can be found in the field of bank cards, where Swedbank offers a card that donates parts of its revenue to the WWF.

In regards to Islamic banking, Diviesh states that if there would be recordings of demand for Shariah windows, Swedbank would primarily need trustworthy documentations of the recorded demand. Secondly, the way in which these services would be launched must hold such a manner that the production and implementation of them would be successful without risking the bank’s trustworthiness. A Shariah board would be necessary in order to avoid such risks. Without universal standards, there would be a risk of being seen as not correctly following the Shariah laws and this is very important to avoid. In conclusion, Diviesh states that Swedbank would undoubtedly take on such research, to eventually consider if they can satisfy customers with a trustworthy new service.

As a final note, Diviesh commented on the interview done on Shaher Abbas by stating that the experiences from the UK show that there is a limited amount of interested Muslims for Shariah-compliant services in Sweden. The market is too small to supply for. He also says to
be hesitant to the claim that Shariah-compliant services would decrease the risks within a
bank, but he shows interest in finding out more about these investigations in order to increase
his knowledge on the matter and consequently increase Swedbank’s knowledge on the
subject. In conclusion, Diviesh states that he keeps updated through reading and gathering
information on Islamic banking and its outcomes in the UK, as Swedbank has an interest in
watching over this area. If they find a product that is trustable and brings value to the
customer, then a possible launching could take place. Hence, Swedbank is monitoring the
movement of Islamic banking.

4.1.5 SEB

SEB’s opinion is brought forward by Belgin Fortaci, who works at “Försäljning, Mångfald &
Entreprenörer” (Sales, diversity & entrepreneurs).

Part 1

Belgin works mainly with diversity related questions, and she says that SEB tries to find ways
of attracting customers with a foreign background, rather than focusing on religious
perspectives. In finding out the opinion on Islamic banking, she states that SEB is aware of
the increasing demand for Islamic banking throughout the Western world, where they see the
UK as the biggest market. They have noticed a small demand in Sweden as well, since they
occasionally receive requests. Consequently, the bank conducted a market research for the
Swedish market, in order to see if there would be any profitability to gain from applying
Shariah-compliant products, as a discussion had started in Sweden. She says that there are
around 5% of Muslims in Sweden, where Sweden is already a small market. If there are 5%
Muslims in Sweden, how many of those would be interested in Shariah-compliant products?
Belgin estimates that possibly half would be interested. Thus, the bank made the conclusion
that the market is too small as of now. Therefore, the consideration of opening Shariah
windows within their facilities was closed. At the same time, no market research has been
conducted among non-Muslims and so a potential market was overlooked in their
investigation for possible profitability.

As stated above, the reason for not implementing Shariah windows at SEB is the small size of
the potential market, which, according to Belgin, cannot secure profit gaining for the bank.
Because of reasons such as the restricted knowledge on Muslims actually interested in Islamic
banking in Sweden and even on non-Muslims who would show interest in the ethics of
Shariah-compliant services within Swedish banks, SEB has chosen not to go through with an
implementation. However, if they notice that demand will increase further, the condition for a
possible implementation would be to conduct another market research, a proper detailed one
in order to see if a Shariah window should be opened or not. Additional conditions to be
regarded include observing other banks in Sweden following the Shariah-compliant
movement and to see what happens in the market. As an example, Belgin has followed the
Avanza Shariah compliant funds, and after one year there were only 12 investors.
Furthermore, Belgin states that SEB is relatively aware of what the other banks in Sweden are
doing, but as of now she does not think that the other banks are planning on releasing Islamic
banking products. Yet the Islamic banking movement could be followed if there would be a
bank showing interest in niche markets.

Moving on, if demand would increase and the bank would choose to implement Islamic
banking products, the way of marketing would be through Islamic organizations or through
mosques. Since SEB’s main target market would be Muslims, it is only reasonable to use such means of communication to ensure proper customer segmentation and market precision. However, concerning diversification, for non-Muslims SEB would put the new products forward in a different way, otherwise customers may believe the products are only meant for Muslims. This would mean to communicate through a different way of methodology that is driven and emphasized on facts, in order to make sure the ethics and values of Shariah products are correctly understood by non-Muslims as well. By aiming at diversification, banks have to consider various tools of communication as to inform and attract their potential market. As an example, Belgin explains how they already have applied a marketing technique where they display flags from many different countries, and also offer telephone bank services 24/7 in 23 different languages, in order to encourage diversity. Belgin herself is from Turkey and she feels that this is a nice way to feel welcomed in a bank by seeing her home country’s flag, and consequently it is appreciated by customers holding different national backgrounds.

Regarding the activity of other banks, such as IBB, who have showed interest in launching Shariah-compliant products in Sweden, Belgin’s view on this is that she believes it would be possible, but equally these banks would have to settle with a small amount of customers, since Sweden is a small market. She says that she would not be surprised if they would eventually appear in Sweden.

As a conclusion, Belgin states that as of now, SEB is staying observant of the market. If they receive enough requests, they will again conduct a market research to check for demand and possible profitability gaining.

Part 2

SEB’s opinion is brought forward by Britt-Marie Callander, Assistant manager of Product & Process.

The cycle of a new service being born and developed within SEB starts by several different factors, such as a change in legislative demand and EU directives, the current movement happening both on the global and national market of the financial world, and factors from the surrounding world that affect the bank. These could include new markets opening up in one part of the world, meaning new areas of possible investment, or a financial crisis striking another part of the world. An additional factor Britt-Marie puts great emphasis on is that SEB also listens and responds to their customers’ wishes and requests by conducting research and continuously analyzing the market to secure an adequate size of the demand.

The ways in which their customer base is widened is done through improvements of the conditions on their already existing products in relationship to other banks. This keeps them in constant competition with the rest of the financial institutions in Sweden, as well as keeps them active in the continuous look for staying upgraded in the market.

Moreover, the actual steps SEB takes when developing a new service involves creating IT support and clear instructions, so that the employees can get properly informed and trained. This would include learning material of the method of production for the service and its use, and the eventual performance of tests for the staff in order to ensure satisfactory levels of knowledge gained. In addition, both internal and external marketing are created as well as
followed up by necessary adjustments and improvements, in order to ensure for good communication tools and accurate knowledge learned.

When it comes to risk, SEB states that all new service development that take place is connected to some sort of risk, whether it be market risk, credit risk, or operational risk. These are handled in a prearranged manner where the bank conducts an examination that consists of established routines and a decision-making committee.

Concerning the implementation of an ethical service, SEB informs of their environmental car loans that have a more favorable interest level than their ordinary car loans. This is done to attract customers into picking a more environmentally friendly alternative. Moreover, their stock exchange company “SEB Fonder” has developed several funds that are both ethically oriented as well as environmentally-friendly oriented, such as SEB Etisk Globalfond and SEB Östersjöfond WWF, to mention a few. The aim is to exclude companies that gain revenue from areas of tobacco, alcohol, gambling, weapons, and pornography.

4.1.6 Handelsbanken

Part 1

Handelsbanken’s opinion is brought forward by Lars Kenneth Dahlqvist, the IR officer at Investor Relations.

According to Lars Kenneth, there is no general opinion regarding Islamic banking at Handelsbanken. However, they believe that in some cultures, the Islamic banking system is suitable and well-working. He states that as a bank operating in Sweden, Handelsbanken follow Nordic traditions, and hence Islamic banking is not included in the Nordic culture. Consequently, no consideration of implementing Shariah windows within Handelsbanken has been made.

Thus far, no expressed demand has been brought forward by the customers, and so, an implementation of Shariah-compliant products has not been topical. Lars assumes that there might be requests in some of the 700 offices they operate, but he has not been made aware of any. Again, the question of demand is raised in regards to profitability for the bank and since Handelsbanken relies on Nordic thinking and traditions, profitability through Shariah windows is not of their interest.

Neither is there any ongoing research regarding the subject, and they are not aware of the increasing popularity of Islamic banking throughout the Western world. Hence, they do not know what the other main banks are doing regarding this matter, but he believes it is possible that these kinds of questions are discussed in the Swedish Bank Association. As stated above, the reason for not implementing these new services is due to the fact that they do not follow Handelsbanken’s traditions of Nordic thinking. They are looked upon as not suiting in their operations because of the cultural differences between Handelsbanken’s services and Shariah-compliant services. However, Lars Kenneth states that if customers would want to put their money in an interest free account, this could be arranged. Although Handelsbanken rely on the economic theory that money has a price over time and hence interest, should not be seen as something unreasonable.
If Shariah-compliant services were to be implemented in Handelsbanken, the way of marketing this would be through the local offices. This is the main communication tool for new products to be marketed within Handelsbanken and which the bank relies on for deciding upon proper targeting and segmenting. The use of TV and other means of communication are not utilized, which shows for their preferred methodology of local informing. The idea is to have a decentralized organization where the employees who actually meet the customers also are those who sell existing and new products to the very same customers. Thus, Handelsbanken leaves the responsibility on the floor staff to find ways of marketing new services to the customers and choosing suitable segments to target. Through this, diversification is encouraged when allowing for such a wide target market.

Part 2

Handelsbanken’s opinion is again brought forward by Lars Kenneth Dahlqvist, the IR officer at Investor Relations.

New service development and ideas for new services take place in two fronts within Handelsbanken; partly through the central product-owner. This is a central unit that follows the development of its assigned area, particularly through observing the competitors’ activities and continuously striving for keeping Handelsbanken’s services at the top ranks. The second front takes place through the local offices where they capture customers’ needs and from this decides internally on which demands to react on.

Lars Kenneth states that the five central business areas of Handelsbanken are so called product-owners, where each holds the responsibility to develop competitive services within their respective service areas. This entails the constant monitoring of the development on the market, both in Sweden and abroad. Nonetheless, Handelsbanken puts its customers in focus, not certain services, and thus emphasizes on the daily work of the employees meeting the customers and responding to their needs and requests. Lars Kenneth says that the initiation of new services as well as further development of existing services is often done through the local offices’ meetings with their customers.

Handelsbanken is actively seeking to widen its customer base by finding and influencing presumptive companies and private customers. The amount of their customers is increasing also due to the fact of customers turning to them after being dissatisfied with their previous banks. Furthermore, Lars Kenneth states that a principle followed by Handelsbanken is that of the office being the bank – every office holds responsibility for their geographical area and ensures upmost activity through proper targeting of customers to influence. The office also holds the responsibility of deciding which service to move forward with and eventually launch it for the public. No central directives occur and rarely any central marketing campaigns. Due to this, the methods used to widen their customer base differ from office to office. An example of an effective way of widening the customer base is by looking at Handelsbanken’s offices in the UK, where they seek to gain attachment of customer groups, such as lawyers and estate agents, who in their exercise of profession are affiliated with many interesting presumptive customers. This in turn will generate opportunities for an increase in potential customers and eventually expand the customer base slowly but steadily.

Some communication tools used when developing new services within Handelsbanken involve the channels they have, their website, arranged web meetings where the usage of the service is explained. There is also constant communication with FI whenever implementing
new services, in order to ensure the fulfillment of existing requirements. Lars Kenneth also states that due to the very nature of services not being physical entities displayed in the bank, proper IT support is needed and thus created in order to ease the usage of the new service and the managing of it. Afterwards, follow-ups are performed on a regular basis to monitor the performance and development of the new service. If it shows to be successful, it is continued, but if negative results are shown, trials of widening its customer base are done.

Regarding the matter of risk, Lars Kenneth means that a bank’s activities are based on taking and managing risk. The big short-term risk for a bank is however not associated with services as such, but the way in which they are used. The biggest risk constitutes credit risks, where the evaluation for such risks proceeds from the customer’s ability to repay his/her debt and not on what securities the bank can offer.

Handelsbanken is hesitant to give a definition on what ethical services constitute, since they find it to be a matter of individual interpretation. For this reason they always aim at providing clear and comprehensible list of contents in order for the customer to form their own opinion on a service and themselves decide if it fulfills their personal criteria. An example is their Etiska aktiefonder; ethical mutual funds.

Concerning the movement of Islamic banking, Handelsbanken says to be monitoring its development in the market and has studied on how other foreign banks have worked with it. However, as of now, no launching of such services to fit into the conventional market system is planned to be made.

As a conclusion and a comment on the content gained from the interview on Shaher Abbas, Lars Kenneth states that Handelsbanken is firmly following the development of this new banking system and will keep monitoring it, but as stated, no implementation within their bank is done that follow the Shariah laws.

4.1.7 Nordea

Part 1

Nordea’s opinion was brought forward by Peter Paulsson, the Loan & Deposit Specialist. This interview was done through the use of e-mail, because of their lack of time for a telephone interview.

According to Peter, Nordea’s opinion on Islamic banking is that it is difficult to implement in Sweden, given issues such as tax legislation and the issue of the non-usage of interest. As of now, no ongoing research is undertaken at Nordea to increase knowledge about the matter of Islamic banking, meaning no consideration of the opening of Shariah windows has been made.

Nordea is relatively aware of the increasing popularity of the implementation of Islamic Banking throughout the Western world, but they mainly know of the cases of the UK and Germany. Whether there is an increasing demand in Sweden or not was answered with a counter-question of whether this fact was true or not.

The reasons for not implementing Islamic banking solutions in Nordea are because of the lack of demand, stating that there is no profitability to be gained for the bank, but also because of
the confusion with interest rates. Hence, a lack of knowledge regarding the principles of Shariah laws and the exclusion of interest rates is noted.

Moreover, Nordea views itself as a Nordic bank, meaning it holds a Nordic perspective rather than a Swedish one. Peter states that if they would see other banks in the Nordic countries starting to implement Shariah windows, they would make an assessment as to whether this would be a good business opportunity or not, and from there move forward accordingly.

Part 2

Nordea’s opinion was brought forward by a managing director who wishes to stay anonymous. Again, this interview was done through the use of e-mail, because of their lack of time for a telephone interview.

When it comes to funds, Nordea has a unit that works with service development on a Nordic level that essentially develops new funds for the Nordic as well as the Swedish markets. The initiative for a new fund can be brought forward by customers and by the employees within the bank, and importantly from the competitors’ activities. The most common way of new service development usually initiates as an internal idea.

Market research is seldom utilized during the production of new funds. On the other hand, a fund can only be launched if its business case is satisfactory enough, which means that Nordea’s selling channels must reach a certain number of revenue through sales. How big this amount is depends on which fund is in focus.

Concerning the definition of ethical services, Nordea says they offer two funds following such principles: Nordea Etiskt Urval Sverige and Nordea Etiskt Urval Global. These two funds conform to certain international standards and hold sector-based screenings that enables the exclusion of investing in companies who gain profit from alcohol, tobacco, weapons, gambling, and pornography.

Concerning Islamic-compliant funds, Nordea is not excluding the possibility of launching such funds in the future.

4.2 Results of Financial Ratios

The authors of this thesis have chosen to look at nine different banks, five Swedish banks and four UK banks. Four of the Swedish banks are the biggest banks in Sweden (Nordea, Swedbank, Handelsbanken, and SEB), and the fifth bank of choice, JAK, is a bank that works with similar kinds of principles as Islamic banking. In the UK, there are only two commercial Islamic banks, Islamic Bank of Britain (IBB) and Bank of London and The Middle East (BLME). HSBC and Lloyds have Shariah windows and they were included in this study since, according to the perceptions of the authors, they are among the biggest most well-known banks in the UK.

The ratio analysis between the nine banks of choice; Nordea, Swedbank, Handelsbanken, SEB, Lloyds banking group, HSBC, IBB, BLME, and JAK, consisted of four ratios. The ratios have been chosen since they are the most reappearing ratios in the annual reports. Also, the cost-to-income ratio and the Tier 1 capital ratio are ratios specially used for banks. For an even more fair analysis, more ratios could have been included, but because of the time frame
it could not be conducted. An important note to add is that, in a few cases for IBB, some ratios could not be retrieved. However, this lacking information could be obtained from Hardman & Co, and RNS.

The ratios that are analyzed in chapter 5.1 are: Return on equity (ROE), Earnings per share (EPS), the Cost-to-income ratio, and the Tier 1 capital ratio. ROE had to be manually calculated for both pure Islamic banks, IBB and BLME. The EPS also had to be calculated for BLME, and for JAK, no information could be retrieved as the bank does not consist of shares of common stock. The cost-to-income ratio had to be calculated for IBB and BLME. This was done through the formula given in the other annual reports of the banks included in this thesis (Total operating expenses ÷ total operating income). The Tier 1 capital ratio had to be calculated for IBB and BLME, from the formula retrieved from the IBB 2009 annual report (ordinary share capital + share premium and retained earnings - intangible assets ÷ total assets).

**Return on equity**

The return on equity, or ROE, is a ratio that shows the profit created by the level of investment by shareholders. This measure is used to compare companies within the same industry when it comes to profitability (Investopedia, 2010). The higher the ROE the better, since this indicates a strong internal ability of generating cash (About.com, 2010).

**Earnings per share**

The earnings per share, or EPS, is also a profitability ratio. It indicates how much of the profit that is distributed per share of common stock (Investopedia, 2010). A higher ratio is better, as it shows a company’s ability to generate money, and is thus useful for comparison with other companies (Investing school, 2010).

**Cost-to-income ratio**

The cost to income ratio (C/I) shows the relation between costs and income in a company. This measure is mainly used within the banking industry. The lower the ratio the better, since this means that the relation between costs and income is more extended, and thus the bank is more profitable (Money week, 2010).

**Tier 1 capital ratio**

The tier 1 capital ratio shows the strength and health of a bank. The higher the ratio the better. It is mainly used by regulatory agencies but also by other stakeholders. The biggest part of the core capital consists of the equity capital from shareholders (Dave Manuel.com, 2010). This equity capital cannot be redeemed by the owners, which thus gives the bank a more solid base (Investopedia, 2010).
Comparison of the ratios between the nine banks:

<table>
<thead>
<tr>
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<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Nordea</td>
<td>11,3</td>
<td>15,3</td>
<td>19,7</td>
<td>22,9</td>
<td>18</td>
</tr>
<tr>
<td>Swedbank</td>
<td>-12,5</td>
<td>15,2</td>
<td>18,9</td>
<td>19,3</td>
<td>24,6</td>
</tr>
<tr>
<td>Handelsbanken</td>
<td>12,6</td>
<td>16,2</td>
<td>23,3</td>
<td>20,9</td>
<td>17,9</td>
</tr>
<tr>
<td>SEB</td>
<td>1,2</td>
<td>13,1</td>
<td>19,3</td>
<td>20,8</td>
<td>15,8</td>
</tr>
<tr>
<td>Lloyds banking group</td>
<td>8,8</td>
<td>7</td>
<td>28,1</td>
<td>26,6</td>
<td>25,5</td>
</tr>
<tr>
<td>HSBC</td>
<td>13,2</td>
<td>14,5</td>
<td>14,5</td>
<td>13,6</td>
<td>16,4</td>
</tr>
<tr>
<td>IBB</td>
<td>-0,56</td>
<td>-0,31</td>
<td>-0,28</td>
<td>-0,28</td>
<td>-0,16</td>
</tr>
<tr>
<td>BLME</td>
<td>-0,05</td>
<td>0,01</td>
<td>0,00</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>JAK</td>
<td>-0,03</td>
<td>0,00</td>
<td>0,00</td>
<td>-0,02</td>
<td>-0,07</td>
</tr>
</tbody>
</table>

Table 4 Comparison of ROE

From this table one can see that the Swedish banks started to have a down turn on their return on equity, as the financial crisis started with the problems on the American subprime mortgage market in 2006. The bank in 2007 that could still keep more confidence was Handelsbanken that actually had a better ROE that year. The bank that fell more was Swedbank, which gave a negative result as of 2009.

Looking at the results for the Islamic Bank of Britain, it demonstrates negative results for all the years presented. Though what can be seen is that it has not had big fluctuations during the years studied. The same can be said for BLME.

HSBC, which is a conventional and Shariah-compliant bank, shows a stable ROE, which means that despite the financial crisis its operations could be kept stable. Lloyds, who also is a conventional and Shariah-compliant bank, did have fluctuations in there ROE during the financial crisis. Before the crisis it showed a relatively high and stable ROE. There was an improvement though from year 2008 to 2009.

JAK is not showing any return on equity because it is not the purpose of the bank. It is a cooperative bank whose purpose is to provide lending and borrowing between customers.

<table>
<thead>
<tr>
<th>EPS = Earnings ÷ Weighted number of ordinary shares</th>
<th>2009</th>
<th>2008</th>
<th>2007</th>
<th>2006</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nordea (EUR)</td>
<td>0,6</td>
<td>0,79</td>
<td>0,93</td>
<td>0,94</td>
<td>0,67</td>
</tr>
<tr>
<td>Swedbank</td>
<td>10,66</td>
<td>16,51</td>
<td>23,28</td>
<td>21,11</td>
<td>23,14</td>
</tr>
<tr>
<td>Handelsbanken</td>
<td>16,44</td>
<td>19,46</td>
<td>24,84</td>
<td>20,41</td>
<td>16,98</td>
</tr>
<tr>
<td>SEB</td>
<td>0,58</td>
<td>10,36</td>
<td>14,12</td>
<td>13,23</td>
<td>8,89</td>
</tr>
<tr>
<td>Lloyds banking group (British pence)</td>
<td>7,5</td>
<td>6,7</td>
<td>28,9</td>
<td>24,8</td>
<td>22</td>
</tr>
<tr>
<td>HSBC (US $)</td>
<td>0,34</td>
<td>0,41</td>
<td>1,44</td>
<td>1,22</td>
<td>1,18</td>
</tr>
<tr>
<td>IBB (British pence)</td>
<td>-1,8</td>
<td>-1,4</td>
<td>-1,6</td>
<td>-2,1</td>
<td>-1,5</td>
</tr>
</tbody>
</table>
At a first glance at this table, it is noticeable that in general all banks have had a drop from the year of 2007 to 2008, when the global financial crisis had its big hit. The only bank that had an improved EPS, despite the negative result, was the Islamic bank of Britain, which means the bank was doing better, although to a very minimal part, since an increasing EPS means a company is having a better ability to generate money within the company.

All the banks studied had a further drop from the year 2008 to the year 2009. The Swedish bank Handelsbanken had despite of the financial crisis a strong EPS compared to the other banks. The explanation might be what we can read in the annual report of 2009, where it is stated that despite the weak economic climate throughout the world, Handelsbanken still had an increase in customers and a better productivity within the bank. The decreased EPS was mainly explained by increased credit losses.

JAK is not a cooperative bank and hence there is nothing to calculate for this ratio on this bank, since it does not have any stock of shares.

<table>
<thead>
<tr>
<th>C/I % = Cost ÷ Income * 100</th>
</tr>
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<tbody>
<tr>
<td>-------------------</td>
</tr>
<tr>
<td>Nordea</td>
</tr>
<tr>
<td>Swedbank</td>
</tr>
<tr>
<td>Handelsbanken</td>
</tr>
<tr>
<td>SEB</td>
</tr>
<tr>
<td>Lloyds banking group</td>
</tr>
<tr>
<td>HSBC</td>
</tr>
<tr>
<td>IBB</td>
</tr>
<tr>
<td>BLME</td>
</tr>
<tr>
<td>JAK</td>
</tr>
</tbody>
</table>

The Swedish banks all show different trends during the years investigated. The one that has kept a more stable cost-to-income ratio is Swedbank, with hardly any fluctuations. Nordea is not far behind, but still has experienced more fluctuations than Swedbank. Handelsbanken has showed an increasing trend which should be seen as negative, since a lower ratio is preferable. SEB has got the highest cost-to-income ratio among the Swedish banks, and is also the bank that has experienced most fluctuations.

The Islamic bank of Britain has got an extremely high cost-to-income ratio. It can be seen from the annual report that expenses were higher and income was lower in the year of 2009. BLME also declares a high cost-to-income ratio.
HSCB has from 2007 onwards decreased its cost-to-income ratio, which should be seen as something positive, since a lower ratio means a reduction in costs to incomes, and hence a higher profitability.

Lloyds showed a balanced cost-to-income ratio before the financial crisis, but when it hit, the ratio went up for the years of 2008 and 2009.

JAK has kept this ratio close to 100% or 1, which means that costs and income is almost equal. Since JAK is not looking for profit, this shows that the bank is serving its purpose and keeps costs and incomes close to a break-even number.

| Tier 1 capital ratio % = Core equity capital ÷ total assets * 100 |
|----------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| Nordea               | 10,2  | 7,4   | 7     | 7,1   | 6,8   |
| Swedbank             | 13,5  | 11,6  | 9,3   | 9,8   | 9,7   |
| Handelsbanken        | 20,2  | 16    | 16,9  | 9,5   | 11,8  |
| SEB                  | 13,5  | 10,6  | 11    | 11,5  | 10,8  |
| Lloyds banking group | 9,6   | 8     | 8,1   | 8,2   | 7,9   |
| HSBC                 | 11,2  | 6,8   | 7,5   | 7,5   | 6,9   |
| IBB                  | 7,90  | 10,13 | 14,27 | 25,28 | 43,74 |
| BLME                 | 0,32  | 0,30  | 0,60  | -     | -     |
| JAK                  | 14,16 | 14,08 | 14,08 | 16,16 | 16,96 |

Table 7 Comparison of Tier 1

What can in general be observed from this table is that the Swedish banks have between 2005 and 2009 improved their tier 1 capital ratio. This in turn means stronger and healthier banks, where Handelsbanken shows the best number. It was also awarded “Bank of the year” in Sweden in 2009. The bank won this award since they were prepared that the financial crisis would happen, since every 12-15 years there always seem to be a financial crisis (Privata Affärer, 2010).

As has been stated earlier in this report, the Islamic banking system is more resistant to market disturbances, since they do not use interest rates in their operations. It can still be seen from these numbers that most of the Swedish banks show a higher tier 1 capital ratio. HSBC and Lloyds, who have Shariah windows, showed slightly weaker results. The Islamic bank of Britain had a really high tier 1 capital ratio before the financial crisis, which indicates a strong performance. However, it went down to Swedish levels after the crisis. BLME has had a really low and stable tier 1 capital ratio during its three years of operations.
5. ANALYSIS

In this chapter, the intention is to analyze the empirical findings previously presented. This is done by firstly presenting the data collected from the interviews, followed by a financial analysis of the ratios. They will then be connected with the chosen theories and the purpose of this thesis. The problem formulations will also be answered through the interpretation of the study and the authors’ own inferences drawn.

- How does service development go about in the Swedish main banks?
- What are the reasons for not having implemented Shariah-compliant solutions within existing conventional banks in Sweden?
- What are the conditions for implementing Shariah-compliant services in the Swedish banking system?

5.1 How does service development go about in the Swedish main banks?

Before answering the question, a reminder has to be made. Nordea did not leave answers to several of the questions as the authors of this thesis could not get hold of someone willing to give an interview, besides a few comments from a manager who works with funds. If not mentioned in the text, Nordea is not included in the analysis.

Now the analysis will continue.

What can be seen from the interviews conducted with the main banks, is that service development has similar steps. After conducting a market research, they all start by educating their staff and giving information through internal channels. IT support needs to be created for the new services, as they are just that, services, which will be handled electronically. External marketing is the next step, and finally an evaluation of the new service. Evaluations are made on a regular basis to see if the service should be kept within the bank.

Here, one can see the connections with the New Service Development theory, as “precision” is represented by the internal and external marketing, and the monitoring of how the service is doing. It is “driven by facts” as the communication is taking place between employees and customers, in order to create an understanding for the service. It is also based on “methodology”, as internal education is taking place for the employees. The biggest emphasis for the process seems to be on IT support and the education of the staff. Without these measures, a launch cannot be made to the customers.

One can also see that the banks are following each other’s activities, since they are all using the same procedure in the process of implementing a new service. All the banks, including Nordea, actively search for possible new services to implement within their banks. This is done internally by listening to what employees might want to bring forward, by looking at what their competitors are doing on the Swedish market, and also what is happening on the global market. Customers’ demands are also listened to and evaluated.
As to the customers, one can see that all the banks, in an active way, try to broaden their customer base. Swedbank puts their main focus searching within private banking, targeting middle sized companies. SEB tried to improve already existing products in order to attract customers of other banks. Handelsbanken focuses on local customer targeting, as they let their offices work on a more local basis, where situations may differ from office to office.

As can be seen from the Swedbank and Handelsbanken interviews, they seem to encourage diversification of customers as the door is open for anyone. If the banks get a diversified customer base, this can lead to a reduction of risk, as also stated by Howells & Bains (2008). Risk is something the banks need to know how to handle. Here, the banks gave different answers as to how they thought about risk and how to handle it. Both Handelsbanken and SEB gave a general view of this matter, whereas Swedbank explained it more thoroughly. It was stated that if the customer cannot understand the service, it is too risky. The banks reputation and brand name cannot be jeopardized as this can affect their financial position. This shows that the customer is in focus, as should be, since if the banks do not have any customers, they do not have a business.

All the banks, including Nordea, seem to be listening quite well to what customers want, as they all include ethical products within their banks. All of them offer different kinds of ethical funds, where Swedbank also mentioned a card which gives a certain percentage to the WWF, and SEB an environmental car loan. The authors of this thesis believe that ethical products may increase in popularity with time, and it is positive that all banks seem to be aware of this movement, hence advancing in this area should be focused upon. Ethical banking also includes Islamic banking. SEB does not seem to have made that connection. Swedbank is very careful about the subject of Islamic banking, as they want everything to be done as correctly and respectable as possible. It was mentioned earlier that reputation is very important to them, and that they need to be trustworthy. Handelsbanken seem to be quite aware of Islamic banking, but they await and monitor the development within this field. This is probably due to the thoughts of whether it would be profitable for the banks and how an implementation would go about.

The information presented from the interview with Shaher Abbas seemed, to a certain extent, to be news for the banks. However, the banks seem to stay updated and search for information, monitoring what is going on within this branch of banking. Swedbank and Nordea give the strongest impression that an implementation of Shariah-compliant products would not be impossible if they can see that it would be profitable. They seem to understand the possibilities for the future. This is positive, as one cannot get stuck in old ways of operating, but rather listen to what the market demands.

5.2 What are the reasons for not having implemented Shariah-compliant solutions within existing conventional banks in Sweden?

The reasons for not implementing Shariah windows in the main banks of Sweden, represented from the interview analysis by Nordea, SEB, and Swedbank, is because they perceive demand to be too small. Handelsbanken stated that they have not even perceived a demand for it. Additionally, the banks do not have enough knowledge for these sorts of products as of now. Since the banks do not perceive a big enough demand, nor do they see the possible opportunity of profitability, the implementation of Shariah-compliant solutions is not seen as an option at the moment.
According to the theory of New Service Development, two of the characteristics to be followed if wanting to implement a new service, are objectivity and that it has to be driven by facts. A financial ratio analysis brings objectiveness and raw facts forward, and in combination with the guidelines of the theory, a measurement of profitability can be obtained. One of the reasons of Swedish banks’ non-implementation of Shariah-compliant solutions is partly due to the lack of these characteristics. Even if demand is seemingly too low, it does not imply that it cannot be profitable.

Swedbank brought forward the problem of the lack of international standards for accounting, auditing, and credit analysis for Islamic banking activities. This is in accordance with Nehavnilawar’s (2010), which can be found in the theory chapter of this thesis. Solé (2007) with the IMF brought forward the AAOFIF – The Accounting and Auditing Organisation for Islamic Financial Institutions, and IFSB – The Islamic Financial Service board, but these obviously do not cover everything, as banks still feel that there is a lack of information and international standards. There is also the issue of how to keep some money separated for it to be Shariah-compliant, as Solé (2007) also mentioned in his report. Swedbank also brought up that there might be an issue of finding staff that can handle the Arabic terminology.

Both Swedbank and Nordea were concerned with the tax issue if Shariah windows were to be opened. Nordea and Handelsbanken also brought up the confusing matter of the definition of interest, i.e. what is the difference between interest and fees? Handelsbanken even proposed that they could offer interest-free savings accounts if a customer would ask for it. Moreover, Lars even made the bold statement of saying that with the crisis happening, several of their accounts are with 0% interest, and hence follow the principle of riba, i.e. interest free. With this said, it is clear that a lack of knowledge does exist concerning the principles of Islamic banking, and which shows for the relevance of this study and its purpose.

Here, an important issue to clarify is the difference between interest and a fee. In order to understand how conventional banks and Shariah-compliant systems create profit to their businesses, a definition of the two ways of revenue-making needs to be explained. An interest-based approach uses interest as a means of profit, and this may fluctuate because of its connection to other variables; the time value of money, the credit risk of the borrower, and the inflation rate. These are all variables in which the interest rate is dependent on and that affect the original fee charged by the bank to the borrower (Investowords, 2010). Moreover, the interest rate is sometimes defined as a fee, however this is rather confusing since an interest is expressed as a percentage and thus has its very nature of being dependent on the principal payment, while a fee is a fixed sum charged for professional services (Answers.com, 2010).

Specifically for Islamic banks, the means of profit originates from their investments made in projects and also from the fees they charge their customers for providing them with services. This fee is independent from variables and is not affected by inflation rates, because it is only a fixed sum that is added to the principal payment and thus, is on a one occasion basis. Additionally, the fee shared for a service and the time period for repaying can be discussed and agreed upon together with the clients, which is a fact that differs greatly from how conventional banks handle their relationships with their clients. Conclusively, the Islamic banking system relies mainly on the profit-sharing principle as a means of profit, while conventional banks take advantage of the flexibility in fluctuating interest rates.
When it comes to the relevance of customer segmentation and targeting, Kotler (2002) is, as mentioned in chapter three, providing with four criteria for ensuring segment quality and effectiveness, namely:

- **measurability** – is it possible to determine the size of the segments from available data?
- **accessibility** – is it possible to access and provide products/services to this group?
- **substantiality** – is this segment large enough to be profitable?
- **actionability** – can programs be designed to attract and service this segment?

Looking at the Swedish market, no previous studies have been carried out in order to gain knowledge about the possible implementation of Islamic banking. Hence, no extensive research concerning the interest of interest-free banking or any other Shariah-compliant services has been conducted, as far as the authors have been aware of. The two major sources for stating that a demand exists is the one previously mentioned in chapter one about JAK’s yearly increase of the customer base, and also a statement done by Mahmoud Aldebe, a spokesperson for the Muslim Association of Sweden, which reads that the 70,000 members are in search for a bank offering Shariah-compliant services (Islam in Europe, 2010). In addition, the interest that the Islamic Bank of Britain has shown towards entering the Swedish market in hope of gaining customers seeking for Islamic-compliant services indicates for a demand. Hence, since this service is available in other markets, i.e. in other banks outside Sweden, the customers have the ability to use Islamic banking products. However, having these solutions within Swedish banks would seem more convenient in order to locally provide a possible demand and not miss out on a possible window of opportunity.

With these statements laid down and Kotler’s market segmentation theory to work from, the first apparent fact is that the target is the Swedish population, with no exclusion of any groups in society. Because of the fact that Islamic banking is increasing throughout the West, for both local Muslim communities and non-Muslims, it is evident that demand is not restricted to just the Islamic societies. Thus, the target population is Sweden’s citizens and the target segment is the banks’ clients from the age of 18 and above.

Evaluating Kotler’s criteria in regards to the objectives of this thesis, measurability does not hold sufficiency because there is no data collected regarding possible segments, since no market research has been made on other segments than Muslims.

In regards to accessibility of the research, it is highly possible to access and provide services to the target population. This is because of the earlier statement mentioned by the FI that no obstacles for Islamic banking in Sweden exist, as can be read in chapter one of this thesis. Also, because of the plain fact that potential customers already exist in the market, when looking at JAK’s growing competitiveness in the Swedish market, and the fact that there is interest from banks abroad to enter the Swedish financial market with Shariah solutions.

Moving on to the criterion of substantiality, this is seen as the most relevant criteria to follow, since it questions the profitability of the customer segment. Here, it is necessary to keep in mind the basics of this study done and its foundational contribution to this kind of field of research. There has not been any thorough study made to see how big the demand for Islamic banking really is. Conclusively, despite the already existing knowledge concerning the interest for Shariah-compliant services, the target segment does not hold competence.
Lastly, the final criterion of actionability, which asks for the marketing communication tools, is not being dealt with in this study, in accordance with the problem formulation and purpose. However, the question regarding the different banks’ marketing tools has been brought up through the interviewing. Here we can see a connection with the New Service Development theory, in the sense that the design and the way of launching a new product need to be evaluated according to the criteria. Consequently, in the case of implementing Islamic banking products in the Swedish main banks, actionability needs to be in accordance to the NSD theory, in order to properly attract and service the chosen customer segment.

As was discussed by JAK and SEB, non-Muslims most likely interpret Islamic banking to be made for Muslims solely, suggesting that another title should be used in order to attract non-Muslims as well. This is in accordance with Nehavnilawar (2010), who stated that more information is needed to bank customers concerning what this concept really is about. The theories of customer segmentation and diversification deal with this subject, as it is important for the banks to broaden their customer base. This will be done by targeting both Muslims and non-Muslims in order to stimulate diversification, and through the use of their communication tools, a proper targeting and segmentation can be decided upon.

5.3 What are the conditions for implementing Shariah-compliant services in the Swedish banking system?

First and foremost, the most obvious information gained from the interviews, is that all the four main banks are lacking in knowledge on the subject of Islamic banking. The first condition is then evidently the requirement of obtaining knowledge. The authors of this thesis mean that this can be done through various means of action, namely the following:

- Market research
- Education and certification
- Financial analysis

To obtain the knowledge needed, thorough market research has to be conducted. The four Swedish main banks got the question what their marketing strategy would be, if they were to open Shariah windows, and what segment they would target. The following information was obtained from the interviews:

- Swedbank would turn to both Muslims and non-Muslims, and their style of communication would be through Muslim organizations and through their local bank offices.

- SEB would turn to Muslims only and communicate through Muslim organizations and mosques.

- Handelsbanken is currently not considering this question, as they are concentrating on the Nordic markets. Would Islamic banking someday become of interest, they would communicate the new service through their local offices.

- Nordea did not have anything to say about this question, more than that they are focusing on the Nordic countries and their traditions, and no further information could be extracted from the interview.
The authors of this thesis agree that communication through Muslim organizations, mosques, and local bank offices are good techniques. An additional method could be the usage of surveys. By applying the teachings of the theory of customer segmentation, the target customers can be found, by handing out surveys in the local bank offices and through that, finding homogenous response patterns of customers’ main values. As a result, a segment, matching the values of Islamic banking, would be made easier and more suitable to target. However, non-Muslims should not be forgotten, as they, as well, can be potential clients. Maybe non-Muslims believe that Islamic banking is only for Muslims, given the name. It has to be clarified that this is not the case. This can be seen from the example of JAK, as they have similar principles and a growing customer base each year. As JAK and Abbas stated in their interviews, Shariah-compliant services can be marketed as ethical services in order to encourage the attraction of non-Muslims. The usage of the theory of diversification comes in handy here, as it reminds the banks of the great efficiencies of diversifying their services. By including the theory into their process of launching a new service, the main banks will be able to invest in more varied projects, which will add onto their capital allocation and efficiency. Moreover, because of the ease in having the same distribution channels and sales force, the level of competitiveness will improve, as new knowledge will be added to the employees, making the banks become competitive even on international grounds.

Banks should also be made aware of other possible clients, as brought forward by Baker & McKenzie, where business connections, such as exporting companies and foreign investments with the Muslim countries, are possibly an even more topical business opportunity.

The second point implies that education is essential as the financial products are different, and so is the terminology. Baker & McKenzie stated that this system is quite complex and hence the employees will face a long learning-curve. Here, Abbas and IFAAS could come in handy as they specialize in training banks and governments who wish to implement Shariah-compliant services.

According to the New Service Development theory, employees have to be involved in the process, while interacting with the customers, in order to find the right services to launch in accordance with demand, and a suitable way of doing so. In addition, the employees should also have to obtain a certification, so that it is assured that they can handle this kind of finance and provide the customers with good service.

Furthermore, implementing Shariah-compliant services is out of the hands of the banks, as it regards the economical level of countries. Tax legislation, international standards, and consumer protection need to be dealt with and regulated to fit into a country’s legislation. There are already existing international standards for the implementation of Shariah windows, yet Swedbank brought forward that these standards were lacking in their content, and hence need to be completed. If the banks gain knowledge and are preparing for the launch of Islamic financial products, this should, subsequently, put pressure on the Tax Authorities to adapt legislation to these new products. To follow Malaysia’s example of appointing a Shariah supervisory council to set the correct standards would also be ideal.

The third point implies that a financial analysis should be undertaken. Even though demand may not seem high enough, it does not necessarily imply that there will not be an opportunity for profitability, were Shariah windows to be implemented. The financial analysis of this thesis, as will be stated later, should be seen as a hint of where the results are heading. A more thorough analysis could be undertaken by the banks as they are professionals.
5.4 Analysis of the Financial Ratios

This analysis is rather here to give the readers a hint in what direction the results are heading, as whether it would be profitable to implement Islamic banking activities into the Swedish conventional banks. It is difficult to be sure of making a 100% accurate analysis since there might be some differences in how the banks in Sweden and the UK calculate these ratios. Looking at the annual reports of the conventional banks in Sweden and UK they appear quite similar, but the Islamic banks have some differences since they are conducting their operations a bit different. With that kept in mind, the analysis can now be given:

For the four Swedish main banks, it can be seen that on all ratios there has been an effect from the global financial crisis. However, they did manage to increase the tier 1 capital ratio in 2009, which shows that the banks are getting stronger and healthier and trust is coming back to the banks. Meanwhile, looking at all nine banks analyzed, they had an improvement in their Tier 1 capital ratio in 2009, but the British banks still presented lower levels. This is probably due to that the crisis hit harder in the UK than in Sweden.

One of the banks who did better in Sweden was Handelsbanken. They state, in their annual report of 2009, that despite the weak economic climate throughout the world, they still had an increase in their customer base and a better productivity within the bank. They did show a larger increase in their C/I ratio as opposed to the other Swedish banks, but this is probably due to the increase in costs while opening new offices in 2009.

HSBC and Lloyds, who are conventional banks with Shariah windows, are mainly moving in opposite directions. HSBC gives a more stable impression than Lloyds. This is probably due to the fact that the HSBC brand name is strong throughout the world and they were still able to attract customers despite the situation on the financial markets, according to their annual report of 2009. Lloyds, on the other hand, may have shown worse results as a combination of the global financial crisis and that they acquired HBOS at the same time. This led to increased costs and restructuring of the bank needed to be done, which might have led to some disturbances.

HSBC and Lloyds are using interest rates outside their Shariah windows. From previous statements, the Islamic banks have been able to face the financial crisis in a better way. The reason these mixed banks did not end up in a better position than the Swedish banks, is most likely because the UK got struck harder by the financial crisis than Sweden. This explanation is stated in the 2009 annual report of IBB that the reason they had obtained so low results was because of the financial crisis’ severe impact in the UK, in addition to lowered yields in the interbank market and an increase in costs, which affected the revenue for IBB. On the other hand, they had an increase in their customer base.

For IBB and BLME, it can be observed that on all ratios but the cost-to-income ratio they show the most stable results compared to the other banks. The reason that IBB has such a high C/I-ratio is possibly due to the fact that it is a young bank. Although BLME does not have such a severe C/I-ratio as IBB, the same inference can be drawn here. However, this should be said with some precaution because in many occasions there are really low results or even negative results, but when it comes to stability, IBB and BLME are in the lead.

JAK seems to be the bank that is holding the overall best position. Although they had a high number in their cost-to-income ratio, it is not looked upon as something negative, because they are supposed to keep their ratio around 100% since they are not looking to make a profit.
Their tier 1 capital ratio is also the one that has been kept stable, and as of 2009 and after the crisis when the other banks were trying to regain their position, JAK was mainly presenting the best result. Regarding the ROE, it was stable but negative, however, as stated above, they are not supposed to make any significant profit, only for salaries and other operational costs.

5.4.1 Inferences on Financial Analysis

So, what can be seen from this is that in general the Islamic banks IBB and BLME, along with JAK and HSBC, have shown more stable results and consistency from this analysis than the Swedish banks. However, on the other hand, despite more instability, the Swedish banks have in some ratios shown better results than the rest of the banks. The question is what is best; stability with relatively consistent results or instability with the chance of getting higher results? What should be kept in mind throughout this analysis, is that the lower results of primarily the Islamic banks, are probably due to the fact that they have not been operating for more than a couple of years. Had they been in business for more years, the results may have differed, given that the Islamic banks in other parts of the world hardly got affected by the financial crisis, as stated in the first chapter of this thesis.

According to sources presented earlier in this thesis, it is stated that Islamic banks did better throughout the world during and after the financial crisis. Looking at the recent conducted analysis, it might be disputable, but looking at the stability of these banks, it may be true. Also, it may be that one bank is doing worse than the other despite Islamic banking products (as could be seen from Lloyds). Even though the UK banks looked upon in this thesis do not show the strongest results, it does not mean they are not profitable. Furthermore, since the Swedish market has been less severely affected during and after the crisis, this could also have an impact on the analysis.

Quoting Mehdi Hasan and his article “Shariah banking is growing fast and the mainstream banks are starting to offer Islamic accounts. Its system of shared risks and profits could offer a model for the financial services of the future” from December 2008, the following is revealed and can accentuate the results of this analysis:

“The Islamic Bank of Britain has been reporting a significant increase in the number of non-Muslim customers applying for accounts since the start of the financial crisis. Bank officials say the numbers are growing because Islamic finance offers a “safer option” for savers and investors, regardless of faith”.

Different kinds of credit ratings could have been undertaken in an analysis of conventional banks. However, since this thesis deals with both conventional banks and Islamic banking, and credit ratings are to a certain degree based on interest rates and thus cannot be applied to Islamic banks, it does not seem very useful to credit rate the conventional banks in this paper. This is due to the fact that there would be nothing to compare more than the Swedish banks, which is not the purpose of this thesis.

The authors chose to not look at Islamic banks in other parts of the world, since they want to analyze the Swedish banks within a European perspective. Accordingly, the UK is used as a reference point, since it has become the centre for Islamic finance in Europe.
In the final chapter of the thesis, the main drawn inferences will be presented and evaluated. Equally, the purpose will be appraised and answered by conclusions drawn from the authors’ interpretations of the previously presented findings. A section dedicated for the contributions of this thesis will follow, and finally, some future considerations will be recommended.

- The purpose of this thesis is to obtain the Swedish main banks’ (Swedbank, Handelsbanken, Nordea, and SEB), opinions about Islamic banking and whether they would consider the opening of Shariah windows.

- Additionally, the questioning whether it would bring profitability for these banks, is investigated.

6.1 Reaching the Purpose

Regarding the first part of the purpose, the authors have reached the objective of obtaining the Swedish main banks’ opinions concerning Islamic banking. Through the method of telephone interviewing and e-mail interviewing, the attitudes of considering the implementation of Shariah windows were acquired. The major conclusion drawn is that there are severe lacks of knowledge when it comes to the subject in focus, which is highly peculiar, as Islamic banking is in the front line of the global economic market. However, lately, the banks have started to put more effort into following this movement. Also, it can be seen that several of the banks are willing to open Shariah windows if demand is high enough, and if it will not be too complicated to implement them. Some banks seem more reluctant, not wanting to be the pioneer within the Swedish market, but rather followers.

Customers are one of the most essential assets to the banks, and hence to stay competitive the Swedish main banks should have the aim to increase their customer base in order to improve their business’ profits, as any other organization would. A market research and information to non-Muslims should also take place, as possible demand may be overseen. During all interviews, except the one with Swedbank, the banks stated a targeting of solely Muslims, in case of an implementation of Shariah windows. This shows for their lack of knowledge concerning the global appeal of Islamic banking from non-Muslim countries, and also the possibility of increasing the variety in their customer base, and hence diversifying their target population which will decrease their risk.

As customers are one of the main focuses of the banks, and their demand for Islamic banking is high enough, then their request will be supplied for. There is already an interest in ethical services, and Islamic banking is one of those branches. Although it may be risky to be among the first, would Shariah windows be implemented on the Swedish market and show success, this will mean diversification of operations within the banks.

The authors of this thesis conclude that Islamic banking would be profitable within the Swedish banking system. Nehavnilawar (2010) stated that conventional banks should expand into Islamic financial activities because of a general demand, and that it should be profitable for the banks as this is a growth market. For the case of Sweden, this should rather be seen as for a relatively nearby future and not straight away.

The financial analysis showed that although the Swedish banks may have had better results, they still showed more instability than the Islamic banks and Shariah window banks in the
UK. As already discussed, the UK got struck harder by the financial crisis in comparison to Sweden, and also because the Islamic banking activities were those of relatively recent started up banks. Additionally, in other parts of the world, the Islamic banks have been able to face the crisis in a less severe way than countries with mainly conventional banks. JAK was the bank with the best results from the analysis, and the bank is also growing each year, which is an aspect that should also be taken into consideration.

The authors of this thesis conclude that opening Shariah windows in a nearby future, when the banks have gained more knowledge and international standards have been agreed upon, as Nehavnilawar (2010) also mentioned, will possibly bring profitability and stability to the Swedish banks. However, demand has to be further investigated. The empirical findings showed that all of the banks also concluded that there was not enough demand as of now, however foreign actors are showing interest in offering Shariah-compliant activities to potential Swedish customers, as previously stated in chapter one. Since JAK is also growing in members for each year that goes by, it probably would be wise for the Swedish main banks to get on this train before the chance is missed, because surrounding forces are indicating an opportunity of profitability.

As a final note, as Leif stated from Baker & McKenzie, the banks should also take a deeper look into the business world and see that big opportunities exist in the exporting sector if trading with countries following Islamic financial laws. Abbas also enhanced what has been presented from articles in this thesis, that countries with Islamic banking activities have in most cases been able to handle the financial crisis in a better way: “during the last 10 years this industry has experienced an average annual growth rate of around 15 percent. It is also being forecasted that the Islamic financial market will continue to grow considerably in the foreseeable future. These forecasts are supported by the fact that most of the Islamic banks have fared well amidst the current global financial crisis compared to their conventional peers”.

Hence, the authors of this thesis believe that the Swedish main banks should try to further increase their knowledge about Islamic banking, and make a more thorough market research among Muslims, as well as among non-Muslims. If demand is high enough, the banks could implement a few services within their banks during a trial period. A proposal is to follow Pakistan’s example of introducing these new products in a slow pace, by the usage of a timeline, as the market may be skeptical.

6.2 Theoretical and Practical Contributions

The theoretical contributions are mostly the gained knowledge this thesis provides for this kind of research, since no other similar studies exist concerning the Swedish financial system and Islamic banking. Moreover, this study has hopefully helped expand the discussion further in Sweden, after the conference Baker & McKenzie held two years ago. Furthermore, by providing with such knowledge, a commencement of further research concerning this matter can be triggered, and more in depth studies can be carried out in order to add to the scope of this investigation. Ultimately, this paper contributes in a way of acting as a starting ground for theoretical reference when looking at the possibility of Shariah windows in the Swedish banking system. More importantly, it acts as a reference for practical studies, which was seen as a deficiency for the case of Sweden, and this can be read in the following paragraph.
The practical contributions, which is the main contribution of this thesis, are the basic facts that the banks looked upon have not enough knowledge about Islamic banking and its possible advantages for the Swedish market. Also, through the incorporation of the diversification theory, risk theory, as well as the customer segmentation and the NSD theory, a set of guidelines are recommended in order to ease the process of implementing this new alternative service.

An additional contribution is the awareness hopefully created regarding demand and the different views of profitability in the two banking systems. Even though both systems have different views of profitability, they both see increased demand as a way of increasing profit, which coincides with the purpose of this thesis.

Lastly, the final contribution is the combination of fields being utilized, since it sets the groundwork for future researchers, including different target groups such as banks, marketers and financial institutions, wanting to elaborate on this kind of research. By joining the areas of marketing and finance, different perspectives are used in order to obtain the information sought out for.

6.3 Future Considerations

As this study was limited concerning the time and resources granted, the research holds several limitations. Numerous aspects could have been included to provide with even more accurate data collection, such as customers’ perspective on Shariah windows. Because of the lack of time, this along with other recommendations will be proposed as material for future research.

There is an obvious confusion and disagreement on whether “interest” and “fee” mean the same thing. A clear definition is needed as there are different views on the subject. If these concepts were to be straightened out, the path to implementation would be facilitated.

Khan & Bhatti, (2008) stated that Islamic banking is “the fastest growing industry of the contemporary world of finance” (p. 709). When talking about Islamic banking, the main banks in Sweden only seem to have in mind a customer base containing Muslims only. For what reason is the subject not investigated among non-Muslims and in the business world? It should be one of the main objectives of a bank to try to find new customers, especially after the financial crisis.

An enlarged study should be done, including Islamic banks that have operated for many years in the Islamic parts of the world. A financial analysis including more ratios and a larger time span should be conducted in order to see profitability and other variables to be able to draw conclusions.

As previously mentioned, adding the perspective of customers in the research, would have provided with more reliable data, since demand could have been made as factual information. Market research needs to be conducted among the customer segments that have been chosen, and evidently customer segmentation needs to be decided upon first.

Referring back to section 3.6, during market research and selection of segmentation, the Swedish banks should include a part where they state the different Islamic financial products. This, in order for the customers to get an overview of their supply, and for the banks to understand what products are the most important ones for the target segment. By conducting market investigations and including a similar list as the one in chapter three, customers will be
able to easily find the counterparts of their conventional services, and thus ease the transition of new alternative services they can consume.

A further suggestion is to gather sources of knowledge of the implementation of Shariah windows in the UK, as this could provide with concrete examples of how the Swedish banks could go about if an implementation would occur. The authors of this thesis tried to find sources concerning this matter, but nothing could be retrieved from the resources used. A manner in which the Swedish banks could approach this issue is by contacting the banks in the UK which are already using Islamic financial products. By arranging seminars, conferences, and training days, relevant knowledge can be obtained. More conveniently, the banks should contact Abbas and IFAAS. Additionally, interviews through telephone or questionnaires through e-mail could provide with important information. The reason for not contacting the UK banks regarding this research is due to the fact that the Swedish demand needs to be ascertained before marketing strategies can be looked upon.


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APPENDIX 1

Interview questions, part 1

1. What is your bank´s opinion on Islamic Banking?

1.1 Is there any ongoing research to increase your knowledge concerning this matter?

2. Is your bank aware of the increasing popularity of the implementation of Islamic Banking throughout the Western world?

3. Are you aware of the increasing demand in Sweden for this alternative banking system?

4. What is/are the reason/s for not yet implementing Islamic banking solutions within your bank?

5. If your bank is planning to apply Islamic banking, how would you market this? 
   *If any future plans are intended, how is it planned to be conducted? Communication methods, customer segmentation etc.*

6. What do you think the other main banks in Sweden are doing concerning this matter? If another main bank in Sweden would implement Islamic financial products, would your bank do the same?

7. If you would implement Islamic banking, how do you think it would affect society, loans, and insurances? 
   *Will it be good for the society, would a possible future financial crisis be less severe etc.*

8. Other → do you have any further suggestions or inquiries concerning the subject that would be of interest for your bank? (future research considerations)
APPENDIX 2

Interview questions, part 2

1. Hur får er bank nys om nya produkter? Är det kunder som för fram efterfrågan, eller/och ser man på er bank över vad banker utomlands har för produkter och nya produkter och sedan gör en marknadsundersökning i Sverige? Vad är kraven för att en produkt ska godkännas för implementering (t.ex. storleken på efterfrågan, ser ni på om en annan bank har gjort samma etc.)

   How does your bank get aware of new products? Is it customers who puts in their demand or/and does your bank look at what other products and new products banks have abroad, and then make a market research in Sweden? What are the conditions for a product to get approval and to get implemented within your bank (for example the size of demand, looking at if another bank has done the same etc.)

2. Söker ni aktivt att bredda er kundbas eller låter ni kunderna komma till er? Hur?

   Are you actively trying to broaden your customer base or do you let the customers come to you? How?

3. Vilka är huvudstegen banken tar när en ny produkt/service ska inkluderas i banken?

   What are the main steps the banks takes when a new product/service is going to be implemented in the bank?

4. Hur går er bank tillvägagångande risk när man funderar på eller ska införa en ny produkt/service i banken? Hur utvärderar/måter man risk?

   How does your bank act regarding risk when thinking of or when you are going to implement a new product/service in your bank? How do you evaluate/measure risk?

5. Hur definierar er bank "etisk produkt" (ex religion, miljö etc.)? Har ni någon produkt/service som kan ses som en etisk produkt/service? Varför/varför inte?

   How does you bank define an "ethical product" (for example religion, environment etc.)? Do you have any product/service which can be seen as an ethical product/service? Why/why not?

6. Vet inte om ni känner till Islamic banking, där man erbjuder bankprodukter som är godkända av Shariahlagarna. Är ni medvetna om villkoren för att implementera en etisk produkt såsom en produkt som skulle följa Shariah-lagarna? Om det skulle framkomma siffror som faktiskt visar att det finns efterfrågan på produkter som följer Shariah-lagarna, skulle ni då undersöka saken närmare för en eventuell implementering? Om ja, hur skulle ni undersöka det? Vad avgör om det blir en implementering eller inte? Om nej, vad skulle krävas för att ni skulle gå vidare i den frågan?
We do not know if you are acquainted with Islamic banking, where banking products are offered who are according to the laws of Shariah. Are you aware of the conditions to implement an ethical product such as a Shariah-compliant product? If numbers would show that there actually is a sufficient demand of Shariah-compliant products, would you then investigate the matter more extendedly for a possible implementation? If yes, how would you investigate it? What determines if there will be an implementation or not? If no, what would you need in order to proceed in the issue?

Vi har även genomfört en intervju med Shaher Abbas som tidigare har jobbat vid Islamic Bank of Britain. Han är intresserad av att ta sig in på den svenska marknaden med produkter som följer Shariah-lagarna, dvs. Islamic banking, genom att öppna så kallade "Shariah windows" i konventionella banker. Några huvudpunkter som kom fram vid intervjun var följande:

We also conducted an interview with Shaher Abbas who formally worked in the Islamic Bank of Britain. He is interested in entering the Swedish market with Shariah-compliant products, i.e. Islamic banking, through the opening of Shariah windows in conventional banks in Sweden. Some main points from the interview are the following:

- Abbas arbetar genom IFAAS tillsammans med en svensk juristbyrå, MSA, för att få till stånd en implementering av Shariah-produkter på den svenska bankmarknaden.

  Abbas works through IFAAS together with a Swedish lawyer agency, MSA, in order to be able to implement Shariah products on the Swedish bank market.

- Utöver detta har Abbas pratat med Stockholms centralmoské, och de säger att det finns stor efterfrågan för Islamic banking-produkter.

  Abbas has also talked to the central mosque in Stockholm, and they say that there is a big demand for Islamic banking products.

- Abbas har pratat med JAK om deras produkter som liknar Islamisk finansiering till viss del, och han pratade vidare med Svenska finansinspektionen som säger att det inte finns några hinder i Sverige att implementera Shariah-produkter.

  Abbas has talked to JAK about their products who are similar to the Islamic way of financing to some extent, and further he talked to the Swedish financial authorities who say that there is no obstacle if Sweden wanted to implement Shariah-compliant products.

Abbas concluded that there is a potential market, but that it is quite small. On the other hand it is not expensive for the banks if they were to give out a few Shariah-compliant products in their banks. Also, Islamic financing is not as risky as the products of conventional banks, as risk taking is not allowed according to Shariah law. This leads to safer investments. It can also lessen the effects of a financial crisis.

Vad kan ni på er bank ge för kommentarer efter att ha hört vad Shaher Abbas har att komma med i detta ämne som ändå varit debatterat till viss del i Sverige de senaste åren? Kan det påverka i framtiden hur ni ser på frågan gällande ett eventuellt öppnande av Shariah windows?

What comment can you in your bank give after hearing what Shaher Abbas has revealed about this subject that has been debated now for some time in Sweden? Can this affect in the future how you look upon this issue regarding a possible opening of Shariah windows?
APPENDIX 3

JAK interview with Johan Oppmark, CEO

1. Vad var grundtanken med att starta upp JAK?

   What was the main idea of starting up JAK?

2. Hur gick ni tillväga för att ta reda på om det fanns någon efterfrågan?

   How did you do in order to find out if there was any demand?

3. Hur implementerade ni detta system? Fanns det någon teori eller modell ni följde?

   How did you implement this system? Was there any theory or model that you were following?

4. Hur har ni nått ut till kunder?

   In what way have you reached your customers?

5. Vilken är er kundprofil?

   Which one is your customer profile?

6. Hur ser ni på Islamisk finansiering jämfört med ert banksystem?

   How do look on Islamic banking compared to your banking system?

7. Hur ser ni på framtiden?

   What are your future prospects?
APPENDIX 4

Baker & McKenzie interview with Leif Gustafsson, partner in Baker & McKenzie

1. What was the purpose of the seminar given by Baker & McKenzie, and who participated?

2. How aware were the participants in the seminar about the subject?

3. Did you perceive an increase in the discussions regarding Islamic banking?

4. Did the Swedish main banks change their behavior after the seminar?

5. What would the conditions be for the Swedish main banks to be able to implement Shariah windows?

6. Who are the possible customer group?

7. Is there any future for Islamic banking in Sweden?
APPENDIX 5

Interview with Shaher Abbas at IFAAS

1. Why did IBB get interested in the Swedish market?

2. What does IBB see in the Swedish market that the Swedish main banks does not see?

3. Who was first in the UK with Islamic banking?

4. Please tell us about the implementation.

5. How did you make the market research? Were non-muslims included or not?

6. Why did you make a market research? Had you already noticed demand?

7. What do you want to do on the Swedish market? Offer overseas services, open a branch of IBB in Sweden, etc.?

8. What is enough demand for you?

9. What segments do you turn to?

10. How did the education of employees go about, since Islamic banking includes so many new elements, such as the new services, the Arabic terms etc.?

11. Do you think the British economy handled the global financial crisis better with Islamic banking within the British economical system?

12. What do you think are the proper tools and conditions for implementing Islamic banking products in Sweden? What was used in England, and can the same technique be applied in Sweden?

13. With whom in Sweden did you communicate you interest, and how was your interest met? Why did Sweden not say “yes”, what were the reasons for not implementing?

14. How do you evaluate this new way of doing business when it comes to uncertainty and risk?

15. Was it hard to make people, the public as well as employees at the bank, to think outside the box?

16. Have you done any previous research on of other countries have implemented Islamic banking into their countries?