Exploring the distinguishing features of Islamic banking in Tanzania

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Abstract

Despite its growth, Islamic banking has not escaped criticisms that Islamic banks are not really Islamic. To address that gap, this study was conducted to assess the distinguishing features of Islamic banks in Tanzania. This study used four criteria: compliance with Islamic principles of finance; selection of customers for Islamic banking; structuring conventional banks to follow the Islamic principles as well as competence of Sharia Supervisory Board (SSB) to guide and advise banks. Using descriptive analysis from 60 respondents (customers and officials of two conventional banks which have introduced Islamic banking), the study found that there is limited awareness in case of compliance with Islamic principles of finance as selection of customers is not purely based on Islamic principles and hence limited religious influence, limited structuring of banks to comply with Islamic principles as well as moderate competence of SSB. On the basis of current findings, the study, therefore, concludes that it is very difficult for these banks operating in Tanzania to be termed as really Islamic.

Key words: Islamic Banking, Sharia, Sharia Supervisory Board (SSB), Profit-Sharing Model (PLS), Conventional Banking

Introduction

Islamic banking is a phenomenon that has gained popularity worldwide for the last three decades (Ćihák and Hesse, 2008). Since the introduction of the first Islamic bank in 1975, Islamic banking has been growing at a rate of 10 to 15 percent per year with persistent growth in the future (Ariss, 2010; Ćihák and Hesse, 2008; Eagle, 2009; Tayyebi, 2008). According to Ariss (2010), currently Islamic banks have spread in more than 51 countries, with more than 270 institutions including banks, mutual funds, mortgage companies and insurance firms (also known as Takaful). There are several reasons for the growth of Islamic banking worldwide. First, there is a large population of Muslims worldwide. As Eagle (2009) puts it, the population of Muslims worldwide is estimated to be over 1 billion, hence creating a wide market for Islamic banks. According to El-Hawary, Grais and Iqbal (2007), Islamic finance may attract about 40

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percent of the total savings of the Muslim population worldwide. As such, this makes Islamic banking one of the fastest growing segments of the financial industry (Eagle, 2009). Second, the emergence and growth of Islamic bonds (sukuk instruments) have provided momentum and opportunities for the development of secondary debt markets (Tayyebi, 2008). Third, the recent global economic crisis has also renewed the growth of Islamic banking worldwide (Tayyebi, 2008). Accordingly, several authors attribute the cause of economic crisis to the greedy and selfishness of the Wall Street managers and relaxed regulation of conventional banking carried away by excessive profits (Adebayo and Hassan, 2013). Hence, the introduction of Islamic-compliant banking which integrate ethics and values into finance is considered more reliable than conventional banking. However, these views are not shared by Hasan (2010) who considers that Islamic banks are not immune to financial scandals by citing examples of Islamic banks in Dubai, Egypt, Turkey and South Africa which failed for similar reasons found in conventional banks such as failure of corporate governance, weak internal controls and improper regulatory frameworks.[1]

This global phenomenon is also reflected in Tanzania's banking industry where a number of banks have introduced Islamic banking. Up to 2010, three commercial

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1. *Hasan (2010, p.2) identifies a number of Islamic banks which were closed due to failure of corporate governance. The first Islamic bank identified is Ihlas finans in Turkey which was closed on 10th February 2001 due to financial distress, weak corporate governance and weak internal control systems. It was found that the bank was run without proper systems of internal control; the management was not prepared for any changing circumstances and there was unclear scope of regulations. The second Islamic bank to be closed was the Dubai Islamic Bank. The closure of Dubai Islamic Bank was contributed by a fraud case in which seven individuals were charged including two former executives of the bank. These two executives, in collaboration with five businessmen fabricated the documents and provided bogus transactions to obtain huge amounts of financing. The third bank to be closed in November 1997 was the Islamic Bank of South Africa. The closure of this was contributed by lack of supervision from regulatory authority, poor management, weak risk management and irresponsible offering of numerous loans to insiders. The fourth bank to be closed is the Islamic Investment Companies of Egypt that was closed in 1988. This bank was primarily closed due to the weak of corporate governance, irresponsible management, and improper regulatory frameworks and engagement in Sharia non-compliance activities. Hassan (2010) also identifies BIMB, which was to be closed in 2005 mainly due to bad financing and investments including the inappropriate composition of the board, as there were no board members who were familiar with the banking sectors as well as lack of sound and proper credit and debt collection procedures.*

banks including one large bank with branches across the country introduced Sharia-compliant services alongside with their conventional services. Whereas in the Far East and the Arabian Gulf, countries have full-fledged Islamic banks and Islamic-windows within conventional banks, in Tanzania the situation is different, where the majority of Islamic banking services are provided by conventional banks via a separate window.[2] The Tanzania situation is similar to some countries such as Britain and the US where conventional banks such as Citigroup, BNP Paribas and HSBC are entering this new segment of business (Ariss, 2010). Nevertheless, unlike in Tanzania, in the Western countries, there are also full-fledged Islamic banks operating along with conventional banks. This situation is also found in other East African countries of Kenya and Uganda.[3] Hence, it can be argued that Islamic banking is a growing phenomenon among business forces in African countries including Tanzania deserving serious consideration.

Islamic banking is a service that gives depositors the assurance that their money will be invested well and ethically. All the investments made under Islamic Banking are never associated with any of the traditional 'sin' industries, such as alcohol, tobacco, gambling or pornography; as a result, the product stands on an individual's faith, ensuring not only financial security but also moral and mental satisfaction (Wang and Heitmeyer, 2005). In terms of account opening, Islamic banking is conducted in exactly the same manner as opening a conventional account; however, the product features differ as they are based on the Sharia principles. The costs associated with opening Islamic Banking accounts also remain the same as those for conventional accounts.

The similarities between Islamic and conventional banks have raised doubts among some quarters on whether Islamic banks are really Islamic (Khan, 2010; Eddy Yusof, 2008; Saeed, 2010). The doubts can partly be explained by the findings of the study conducted by Hassoune (2002) which show that the religious element is not a critical

2. *Currently in Tanzania there is only one full-fledged Islamic bank (Amana Bank Ltd) which was licensed by the Bank of Tanzania (BoT), the country's central bank, and then incorporated in 2011. Available at: http://amanabank.co.tz/origin-of-amana-bank/*

3. *In Kenya since 2007, Islamic banks were granted licences to operate as full-fledged Islamic banking. The first Islamic bank to open its operation in Kenya was Gulf Africa Bank (GAB). GAB started its operation in 2007. Another bank which started its operation in 2008 is First Community Bank. Apart from these two full-fledged Islamic banks, other banks offer Islamic windows alongside conventional banking. The other banks include National Bank of Kenya, Barclays Bank of Kenya and Kenya Commercial Bank. In Uganda, the first full-fledged Islamic bank was National Islamic Bank of Uganda (NIBOG). This bank started its operations in 2008.*

reason for customers to use Islamic banking facilities. In this regard, Saeed (2010) raises two issues which make Islamic banks similar to conventional banks: first is the methodology adopted by Islamic banks which makes it difficult for the customer to determine whether he is dealing with conventional or Islamic banks; and second is the issue of whether interests are completely incongruent with the Islamic banking system. El-Gamal (2006) contends that Islamic and conventional banks are more similar than the rhetoric suggests because the current Islamic banks get approval from the same banking regulators as the conventional banks. However, Khan (2010, p. 813) asks why Islamic banks in countries favouring Islamic banks favour non-profit and loss sharing (PLS). Following the same line of argument, one would ask why conventional banks in Tanzania with regulators favouring conventional banks might prefer to introduce Islamic banking services, hence exposing them to dual regulatory environment i.e. conventional one and the need to comply with Sharia (Vinnicombe, 2012).

As a matter of fact, the inclusion of the Islamic window in the conventional banks complicates the separation between Islamic and conventional transactions. This prompted Saeed (2010) to ask how commercial banks introducing the Islamic banking window can ensure that Islamic transactions are free from other interests. To Saeed (2010), effective Islamic banking cannot be established without surrendering non-Islamic lifestyles. Eddy Yusof (2008) provides empirical example from Malaysia showing that eagerness of Islamic banks to participate in the banking industry has led them to imitate conventional products to attract clients and compete with conventional banks. Whereas Islamic banks may be imitating conventional banks to win markets, similarly conventional banks may use Islamic windows to offer a variety of financial products which are Sharia-compliant to win the market. This situation, therefore, generates a desire to understand whether Islamic banks can really be distinguished from conventional banks. As Lewis (2008) contends, if the Islamic banks are just adapting financial products from conventional banks to satisfy Islamic scholars, then how does it differ from conventional banks? One of the empirical studies which attempted to distinguish Islamic banks from conventional banks is that of Olson and Zoubi (2008) which found that using accounting ratios could differentiate Islamic banks from conventional banks. However, using accounting ratios alone, while crucial, does not address the problem of whether Islamic banks are really Islamic. Furthermore, using accounting ratios ignores the fact that Islamic banking can be introduced as a separate window within a conventional bank.

Therefore, the general objective of this study was to determine whether the Islamic banking in Tanzania is a real Islamic banking by assessing features considered to be crucial for the Islamic vision of moral economy. Specifically, the study was aimed at exploring the extent to which Islamic banking services in Tanzania follow Islamic principles of finance in terms of compliance with Islamic principles, selection of customers according to Islamic principles, structuring of banks to follow Islamic

principles and the competence of Sharia Supervisory Board (SSB) to guide banks in implementing Islamic banking. The rest of the paper is organised in five sections. The second part is concerned with theoretical background and literature review that also presents an overview of Islamic banking. The third part of this paper is concerned with the methodology applied in this study. The fourth part covers the analysis and interpretation of the study findings. The fifth part presents the discussion of the findings whereas the sixth part covers the conclusion and implication of the study.

Theoretical Background And The Review Of Literature

Overview of Islamic Banking

In general, Islamic banking is a system of banks governed and guided by Islamic laws (Sharia). For the banks to be considered to be offering Islamic services they are required to conform to Islamic rules and norms; in other words, they are required to make religious features integral to their operations (Algaoud and Lewis, 2001; Adebayo and Hassan, 2013; Garas, 2012). There are five religious features as identified by Algaoud and Lewis (2001:38). The first feature is prohibition of interest (*riba*) in all transactions. The second feature is that business and investments are undertaken on the basis of *halal* (legal/permitted) activities. The third feature is that *maysir* (gambling) is prohibited and transactions should be free from *gharar* (speculation or unreasonable uncertainty). The fourth feature is that *zakat* is to be paid by the bank for the benefit of society and all activities should be in line with Islamic principles. Finally, there should be a special Sharia board to supervise and advise the bank on the propriety of the transaction. Essentially, the basic tenet is that Islam should not only regulate and influence other spheres of people's lives but also should govern the conduct of business and commerce (Garas, 2012). Olson and Zoubi (2008) classified these five Islamic features into two main principles that govern Islamic banks: prohibition of interest (*riba*) regardless of the source or form, and risk-sharing as Islamic banks are required to operate under the PLS arrangement. As such in this study, the overview uses the Olson and Zoubi (2008) features for two reasons: first, the features are more pronounced than others; and second these features incorporate other features identified by Algaoud and Lewis (2001).

Prohibition of interest (riba)

According to Ahmad and Hassan (2007:2), *riba* in Sharia has broader meaning than simply an increase, excess or inflate (as the original meaning derived from the Arabic word *raba* implies) to refer to the premium that must be paid by borrowers to the lender along with the principal as a condition for the loan or for an extension to its maturity. In case of prohibition of interest, this feature is considered to be a very important feature (Olson and Zoubi, 2008) but at the same time controversial (Algaoud and Zoubi, 2001; Bjorvatn, 1998). It is an important feature because the prohibition of interest is based on the Islamic holy book (The Quran). The Holy Quran treats

receiving, paying interest in all transactions as *haraam*, and there are some consequences for those who do that (Zamir, 2007). As such the implementation of prohibition of interest from financial transactions forms part of the Islamic vision of moral economy (Bjorvatn, 1998) and those who disregard the ban on interest are at war with God.[4]

The justification of prohibition of *riba* is based on social, economic and religious rationale (Zamir, 2007). However, the most crucial aspect in this study is the religious basis because the social and economic reasons can be pursued even for banks which are not following Islamic principles. According to the Islamic vision, people are not supposed to exploit anyone, hence Islam opposes such exploitation and advocates for equitable dealings among those involved in the transactions. Therefore, if interest is charged to someone who borrows money for basic consumption this will not be considered an equitable form of transactions but a transaction of exploitative nature. Likewise, receiving interest from someone who has borrowed money for productive purposes is not an equitable form of transactions (Zamir, 2007). Interest in this regard is considered to create unjustified and unjust property rights because the credit systems involving interest lead to inequitable income distribution.

However, there are some critics to this view. First, there are those critics who base their arguments on Islamic scriptures who contend that prohibition of interest is based on a wrongful interpretation of Sharia texts. For example, Saeed (1996) argues that the ban of interest was done a long time ago when the economic situation was different, so interest has to be permitted based on the prevailing socio-economic realities. For example, although interest is considered to be a form of exploitation of the relatively disadvantaged and poor people, today debt is not necessarily attached with poverty, particularly for large-scale or commercial borrowing to produce goods and services or for purchasing durable goods (loans for investment).

Furthermore, Saeed (1996) argues that today there are laws which protect predominantly small-scale borrowers when they fail to repay. To Saeed (1996), the interpretation of Sharia texts which prohibit interest do not take into consideration the historical relevance of certain transactions and the issue that Sharia left to Muslims to develop commercial institutions according to their circumstances. Second, there are those critics who base their misgivings on financial management of banks considering that interest forms an important component of the banks' survival. For example, Olson and Zoubi (2008) argue that banks (both Islamic and conventional) cannot survive without any reward for the services they perform. As such, some studies have considered that instead of charging a fixed interest rate in advance Islamic banks should participate in the profit-sharing arrangement which is linked to the second

4. See the Holy Quran sections which ban riba and the consequences of receiving and paying riba (al-Faatih'a 2:275-279; al-Imran 3:130; An-Nissai 4:161 and ar-Rum 30:39).

principle of risk-sharing. Here the concept of interest is replaced by the concept of profit and loss sharing.

Risk sharing principle

The second main principle, as identified by Olson and Zoubi (2008), is that of risk-sharing whereby Islamic banks are supposed to work under the PLS model. According to Ahmad and Hassan (2007:17), Islam encourages Muslims to invest their money and become partners to share profits and risks in the business instead of becoming creditors. Here the implication is that those who provide capital and those receiving capital should share the risks of their businesses, hence banks and borrowers should share the risks which is contrary to conventional banking system practices (Ahmed and Hassan, 2007). This principle is used as solution to prohibition of *riba* because risk-sharing is considered to be close to social ethics, justice and equity. Likewise, risk-sharing is considered crucial to encouraging investment that may benefit the society as a whole.

According to Olson and Zoubi (2008), there are two popular forms of risk-sharing techniques practised in Islam. These two practices are called *Mudaraba* and *Musharaka*. Both techniques are based on the PLS model. A *Mudaraba* is a contract between two parties whereby one party provides the funds and the other party provides the labour or entrepreneurial abilities. Under *Mudaraba,* the financier or the lender does not participate in the management of the enterprise nor is she/he allowed to request collateral to reduce her/his credit risk. However, the lender is entitled to a percentage of the profit or loss outcomes of the enterprise (Algaoud and Lewis, 2001). Profit has to be shared proportionally and not a lump-sum amount and there is no guaranteed rate of return. In addition, the lender is not liable for losses beyond the capital that she/he has contributed to the enterprise. Likewise, the entrepreneur is not liable for losses beyond her/his loss of time and efforts used in running and managing the enterprise unless it is proven that the loss results from her/his negligence or mismanagement (Algaoud and Lewis, 2001). *Mudaraba* has a unique counterpart called *Muzarah. Muzarah* is usually used in farming where the farmer provides the labour and the financier provides the land. The land will be used by the farmer for a certain period and the output of the land will be shared between the farmer and the financier on terms agreed upon (Algaoud and Lewis, 2001).

Under *Musharaka,* on the other hand, the entrepreneur adds some of her/his own capital to what is provided by the financier. The two sides of the transition are partners and both risk losing their capital. In the case of *Musharaka*, the profit shared is based on an agreement between the two parties and any gain or loss is divided in proportional to each party's capital contribution (Ariff, 1982). *Musharaka* also has a unique counterpart called *Musagah* which is used in orchard keeping, for example. In this case, the financier provides the land and the farmer takes care of planting and harvesting the fruits. The output of the fruit trees is divided between the two parties

based on their contributions (Ariff, 1982). *Mudaraba* and *Musharaka* are considered to be two pillars of Islamic banking and finance, according to Ariff (1982). From these two pillars this study developed four criteria that were used to assess the level of Islamic banking services in Tanzania. The four criteria are discussed under the subsequent conceptual framework.

Conceptual Framework

The conceptual framework, which is the basis of this study, is based on four features which were considered the criteria of Islamic banking. The criteria are compliance with Islamic principles; selection of customers for Islamic banking; structuring of conventional banks to follow the Islamic principles as well as the competence of Sharia supervisory board (SSB) to guide and advice banks to follow Islamic principles.

Compliance with Islamic principles of finance

The first criterion for effective Islamic banking in this study is compliance with Islamic principles of finance. According to Edwardes (1995), the failure of the banks to offer quality products, according to Sharia, will defeat the very purpose behind the Islamic banks' existence or justification for the provision of Islamic banking services. Marimuthu, et al. (2010) argue that the key difference between Islamic banking and conventional banking is that the former is based on the Sharia requirement. Under this first criterion, the three key issues are banks' compliance with Sharia finance, observing Islamic accounting and auditing standards, and making ethical investment. The general banks' compliance with the Sharia finance has already been discussed as a key difference between conventional and Islamic banking; however, there are other avenues for the differences between the two.

In this study, we also consider observing Islamic accounting and auditing standards as an area for the difference between conventional banking and Islamic banking. For example, while conventional banks are required to follow accounting and auditing standards (such as IFRS and International Standards of Auditing-ISA) developed by international bodies of accounting, Islamic banks are required to follow Sharia-compliant standards issued by the Accounting and Auditing Organisation of Islamic Financial Institutions (AAOIFI) (Adebayo and Hassan, 2013; Khan, 2010; Vinnicombe, 2012).[5] The main difference between international accounting standards and Islamic accounting standards is the definition of the bank's income. Whereas under international accounting standards the income takes into consideration the interest aspect, under Islamic accounting standards, the definition of income is based on the profit aspect.

On the issue of ethical investment, for Islamic banks to be considered Islamic they have to invest the funds generated ethically (Adebayo and Hassan, 2013; Mohsin, 2005). As Bjorvatn (1998) puts it, altruism and honesty are core values to ethical systems; as such, Islamic banks have to follow these values. And yet,

this does not necessarily mean that conventional banks are at liberty to make unethical investments. Indeed, conventional banks are also required to make ethical investment but the key differences between the two is that Islamic banks' ethical investments have to be based on ethical and moral values as prescribed by the Holy Koran and the *Sunnah* of the Prophet (Adebayo and Hassan, 2013; Garas, 2012). According to Islamic values, some businesses are prohibited because they are considered unethical and not proper for a good Muslim. These no-go investment include gambling, selling of alcohol or dealing with pork. As such, ethical investment is not only the issue of legal versus illegal but also the moral basis grounded in Islamic thinking and vision. Therefore, our consideration here is that ethical investment should be consistent with the Islamic vision of a moral economy. Buksh (2006) contends that Islamic banks have to create standards to assure customers that the banking services provided are Sharia compliant. According to Chong and Liu (2009), while Islamic banks are required to monitor their investment and borrowers to ensure truthful reporting of profits and losses, depositors are also required to monitor the investments the banks are making to ensure that their funds are being invested prudently. This is consistent with Garas's (2012) argument Islamic Sharia emphasize disclosure and transparency among trading partners. This approach is considered to lead to a more efficient allocation of capital since returns on investments are a function of productivity and viability of the projects financed (Chong and Liu, 2009).

Selection of banks' customers according to Islamic principles

The second criterion embraced in this study for effective Islamic banking services *is* the selection of customers who are going to be clients of the Islamic banking services. Although Islamic banks and Islamic banking windows in conventional banks are there to make profits like any other business, they are considered to foster religious faith. Thus, Islamic banks are expected to make sure that they make extra efforts to have customers who not only understand Islamic principles but who are also devoted followers. Chong and Liu (2009) argue that the PLS model disciplines Islamic banks because they are required to make extra efforts to distinguish between bad and good customers to win the competition against conventional banks. For these banks distinguishing devoted from non-devoted followers is crucial since the former will not do things forbidden by Islam i.e. haraam things (Buksh, 2006). Under this criterion, five variables were used: customers understanding of the permissibility of interest, customers' awareness of interest-free banking,

reasons for customers to select Islamic banking as well as whether customer behaviour is consistent with Islamic principles.

Studies in Islamic banking are diverse and none of them has used selection of banking customers as one of criteria for evaluating the distinguishing features of Islamic services. For example, according to Khan, Hassan and Shahid (2010), the religious principle was found to be a key factor for the customers to select Islamic banking services in Bangladesh. Similarly, Khoirunissa (2003) reported that most of the customers of Islamic banks selected Islamic banking services on the basis of religious principles which include obeying religious orders, getting information about Islamic banking, having a good understanding of Islamic banking over and above living in a religious supporting environment. Khoirunissa (2003) further found that it is not only religious factors that attract customers to Islamic banking but also economic benefits and healthy financial services (such as ATM provision, convenience, reputation and image of the bank etc).

Khoirunissa's (2003) findings are consistent with the argument provided by Khan, et al. (2010) to the effect that Islamic banks have attracted both Muslim and non-Muslim countries and customers. Islamic banks are doing this to ensure that they obtain competitive advantages because they need to have a pool of customer base. As Ariss (2010) points out, there is intense competition in the banking industry which has put a lot of pressure on banks to diversify strategies deployed to win the market. For conventional banks these strategies include establishing full-fledged Islamic banks or setting up Islamic windows and for Islamic banks the strategies include attracting customers or countries which are traditionally non-Muslims. Unfortunately, this approach may suggest that these Islamic banks are no longer Islamic because they attract customers who are non-Muslims with high probability that they would not obey Islamic principles.

This approach attracts criticisms from sceptics who do not believe that there is nothing typically Islamic banking but just a strategy of attracting business from religious customers. In fact, Thambiah (2011) argues that stiff competition in the banking industry today makes Islamic banks no longer regarded as banks which strive to fulfil religious obligations of the Muslim community. These doubts on Islamic banking services necessitate a need to investigate the issue further. In the process of further assessing the extent to which Islamic banking is Islamic the selection of customers is crucial because this helps to distinguish between fulfilling religious obligations to Muslims and simply achieving competitive advantages in the banking industry. In other words, if the religious

underpinnings of the Islamic banks were to hold, then the provision of banking services will be done to Muslims only. Here the assumption is based on an argument provided by Farook, Hassan and Clinch (2012) that the principal customers of Islamic banks are Muslims. As such, greater proportional of these customers are expected to fall more into the category of *Sharia-loyalists* (strictly religious observant) than into *floating segment* (combination of religion and market forces) (Farook, et al., 2012). This implies that these customers will be more concerned with whether the banks are really Islamic rather than economic incentives to be obtained from these banks, hence exerting pressure on these banks to be more Islamic.

Structuring banks to follow Islamic principles

The third criterion used to assess the distinguishing features of Islamic banking in Tanzania was the process of structuring banks to follow Islamic principles. Under this criterion, this study argues that once the bank opts to offer Islamic banking services, there is a need for that bank to redesign itself. Here there are two main reasons for the need for the bank to redesign itself. First, conventional banks are not prohibited to charge interests, and hence most of their incomes are based on interests whereas Islamic banking incomes are based on profits since the Koran prohibits charging interests. Second, Islamic banking operates under the PLS model whereby people participate in financial markets by sharing profits and risks. As Marimuthu, et al. (2010) put it, the nature of the relationship between customers and the Islamic bank is different from that of the conventional banks. Indeed, for conventional banks the relationship is that of a bank and borrower/depositor, whereas for Islamic banks the relationship is that of a bank and a partner. In other words, in Islamic banking, customers are regarded as investors and entrepreneurs. Therefore, in Islamic banking, the banks usually provide finances through participation whereby investors and banks provide capital jointly to carry out business and share profits generated or losses incurred according to pre-agreed ratio.

With regard to structuring the banks to accommodate Islamic principles, this study considered two issues likely to exhibit this criterion. The first issue is the separation between Islamic funds and conventional funds. Here the banks have to ensure that they separate transactions under Islamic principles from those under conventional banking. The second issue is the adequate disclosure of revenue generated by banks to depositors. Since these depositors are treated as investors, adequate disclosure should place investors in a better position to understand how much revenue and income were generated by the bank and how

they were going to be shared (Vinnicombe, 2012). Tahir (2003), for example, argues that despite the efforts of AAOIFI on financial reporting for Islamic banking, the challenges remain for the banks operating on the basis of joint venture (Musharaka) to show revenue realised, operating expenses as well as costs associated with the acquisition of property rights by the bank. Farook, et al. (2012) argue that Islamic banks have contractual obligations to share profits with depositors (considered as investors) and borrowers (considered as entrepreneurs). However, empirical findings suggest different results due to a number of reasons. One reason is that Islamic banks have not differentiated themselves from conventional banks (Olson and Zoubi, 2008). Another reason is the agency problem as identified by Farook, Hassan and Lanis (2011). According to Farook, et al. (2011), the agency problem is brought about by two issues. First, the Islamic banks have two types of principal investment account holders (depositors and borrowers i.e. investors and entrepreneurs) and shareholders who have limited information compared to the management on applications of Islamic principles to the bank operations. Second, deposits are not treated as a liability with claim to the banks' assets but deposit holders are entitled to a residual claim to the banks' earnings on equal footing with shareholders (actually in the balance sheet of Islamic banks these deposits are termed as restricted investment accounts or equity of investment accounts holders).

Generally, depositors are crucial for Islamic banks; however, they have no power or right to vote out the management if they disapprove of their decisions (Farook, et al., 2011; Hasan, 2010). This makes the depositors depend on the shareholders when it comes to monitoring the behaviour of managers; on the other hand, these shareholders depend on these depositors as a source of profit. Such an arrangement naturally creates some kind of dependence between the depositors and the shareholders. These two issues also complicate the Islamic banks' ability to uphold their contractual obligation. Nevertheless, the results from empirical studies on the issue of contractual obligation are not consistent. Indeed, there are those studies such as Sundararajan (2005) as well as Olson and Zoubi (2008) which found that Islamic banks are fulfilling that obligation whereas other studies have reported opposite findings (Chong and Liu, 2009; Farook, et al., 2011; Hasan, 2010). Although these studies generally recognise the problem of fulfilling this obligation, there is lack of empirical evidence to address the accounting systems used by Islamic banks to determine whether it can be used to help Islamic banks fulfil that obligation. The problem here is

whether depositors and shareholders can really evaluate the performance of the banks and achieve equitable distribution of profits or losses. In this regard, El-Hawary, et al. (2007), and Olson and Zoubi (2008) assert that the quality of accounting information and transparency through financial statements are features which differentiate Islamic banks from conventional banks. Hence the argument in this study is that, since accounting information is the product of accounting information systems, then adoption of Islamic banking by banks in Tanzania will alter their accounting information systems in such a way that transactions of Islamic nature will not only be processed according to Islamic principles but should also enable adequate disclosure. Thus, the modification of the accounting information systems ought be done to ensure that depositors (investors) and shareholders get adequate access to such information to reduce the problem of asymmetric information created by the agency problem (Algaoud and Lewis, 2001).

The third issue is concerned with the efforts of the bank to make its employees behave in line with Islamic principles. This entails ensuring employees become familiar with Islamic finance principles by enhancing their capabilities and access to crucial information on such principles. No empirical study has investigated this aspect as a distinguishing feature of Islamic banking. The existing literature has assessed the employees' capabilities as a factor for Islamic banks performance. For example, the empirical study by Abdullah and Rahman (2007), which was aimed at examining the level of knowledge of Islamic banking among bank managers and factors influencing the level of knowledge, found that managers possessed good knowledge on general principles of Islamic banking and some of Islamic finance products but knowledge on some Islamic finance products was moderate. The significant factors influencing the knowledge of the managers included attending training, work experience and level of education. Although Abdullah and Rahman's (2007) study makes a viable contribution on assessing factors behind the Islamic banks' performance, the variables have not been used as distinguishing features of Islamic banks. In addition, the study limited itself to managers, overlooking employees who also handle Islamic transactions. To make employees a variable, for example as a distinguishing feature between Islamic and conventional banks, this study considers employee behaviour on the basis of their capabilities to handle Islamic transactions, possession of adequate information on Islamic finance and their capacity to comply with Sharia.

Competence of Sharia Supervisory Board (SSB)

The last criterion which has been applied in this study is competence of the SSB. Previous studies such as Marimuthu, et al. (2010) and Khan (2010) recognise that each Islamic bank is required to have a SSB to ensure that banking businesses are carried according to Sharia requirement. The role of the SSB is to decide which activities an Islamic bank can involve itself in and which activities it should not (Garas, 2012). For the SSB to perform such a role effectively, its members should have adequate experience and expertise. Marimuthu, et al.'s (2010) study, which focused only on the presence of SSB, does not address the issue of experience and expertise. However, Garas's (2012) study which focused on variables influencing conflicts of interest of SSB recognises that expertise and knowledge of SSB members is crucial. In this study, consistent with Garas's (2012) views, we argue that the competence of the SSB is crucial in enabling members to provide useful advice to banks on achieving and complying with the principles of Islamic finance. Khan (2010), for example, argues that SSBs usually comprise respected Islamic scholars who have to certify that the banks' products are not only financially-compliant but also Sharia-compliant.

This study recognises that the lack of the required competency among SSB makes them vulnerable to being used as mouthpiece of the managers to earn money. As Khan (2010) contends, most of the Islamic scholars who are serving on SSBs are rent-seeking scholars, hence becoming mere rubber stamps. Recognising this problem, in countries such as Malaysia, Islamic scholars are prohibited from serving on more than one SSB at the same time but in other countries this aspect is still not regulated (Khan, 2010). To address this aspect in this study we used two variables: members' knowledge of Islamic financial issues and members' experience with Islamic financial issues.

Methodology

The research design for this study was exploratory in nature as it was aimed at describing the extent to which Islamic banks in Tanzania comply with Islamic principles. To realise the study's research objective, two commercial banks offering Islamic banking services were selected. To obtain the sample from these banks, both non-probability and probability sampling were deployed. The non-probability sampling employed was purposive technique, which is an informant selection tool whereby the researcher decides what needs to be known and sets out to find people who can and are willing to provide the information by virtue of knowledge or experience (Tongco, 2007). Purposive sampling may be applied to derive subjects with specific experiences (i.e.

critical case sampling) or with subjects with specific expertise (i.e. key informant sampling or expert sampling) (Marshall, 1996). In this regard, purposive sampling allows for the respondents to be handpicked by the researcher based on specific criteria geared towards realising the research objective. In this study, two criteria were used.

First, the respondents were selected based on their experiences in Islamic finance (i.e. critical case sample). In this first instance, the respondents were drawn from the Islamic Supervisory Board. These people were expected to have adequate knowledge on Islamic finance and banking issues. Second, the respondents were selected based on their specific knowledge and expertise on banking and Islamic banking in particular. This second factor was used to select heads of department as respondents. Generally, purposive sampling offers advantages of getting information-rich descriptions of experience, as Morse (1991) puts it, from a good informant who is knowledgeable and equipped with requisite experience; however, there are critics of the technique. These critics contend that irrespective of the type of purposive sampling used, this technique can be highly prone to the researcher's bias. Such bias is believed to stem from the fact that purposive samples are rarely representative of the population because not every element has an equal chance of being included in the sample. In this study, we reduced this problem by, first, having specific criteria for sample selection and, second, by further including a probability sampling as an extension to achieving triangulation.

For probability sampling, random sampling technique was applied. This technique was applied to employees and customers of the banks under study. The main advantage of random sampling technique is that enables a research undertaking to derive a highly representative sample of the population since each element has an equal chance of being included in the sample. The critics of this sampling technique argue that it is difficult to do the simple random sampling if there is no complete list of population to be employed as a sampling frame. In this study, it was possible to get the list of Islamic bank customers and employees serving them.

From the two banks under study, the data were collected using questionnaires. The questionnaire used was divided into several parts covering all main issues of banking, customer compliance, customer understanding and the Sharia Supervisory Board. Apart from questionnaire, the data were also collected using interviews with some selected key officials and through documentary review of documents to generate a greater understanding of the issues regarding

Islamic banking operations. The questionnaire had both open and closed ended questions, which were used to solicit requisite data. The questionnaires were administered to collect as much data as possible from the individuals. Data collected were subjected to descriptive statistical analysis using frequencies and percentages.

Analysis And Interpretation Of The Findings

Compliance with Islamic principles of finance

To establish the case of compliance with Islamic principles of finance, this study assessed three variables: banks' compliance with Sharia finance, observation of Islamic accounting and auditing standards, and the banks' ethical investments. The results presented in Table 1 show that, 20 percent of the respondents considered the banks to highly comply with Sharia finance, 8.3 percent considered the banks to have only moderate compliance, five percent cited low compliance and the overwhelming majority (66.7%) did not know whether the banks are complying with Sharia or not. On the issue of observing Islamic accounting and auditing standards, 25 percent of the respondents rated the banks as highly compliant, five percent as moderately compliant and 3.3 percent as lowly compliant. Again, the majority (66.7%) indicated that they did not know whether their banks observed Islamic accounting and auditing standards. Similarly, on the perception about ethical investments made by Islamic banking institutions in Tanzania, the majority of the respondents (about 72%) indicated that they did not know about their bank's investment practices. Only about 22 percent believed their banks were making ethical investments. Those who were categorical that their banks do not make ethical investments accounted for only about seven percent of all the respondents (n=60).

Table 1: Compliance with Islamic principles of finance

Characteristic	Response category	F (n=60)	%
Banks' compliance with the Sharia finance	High	12	20.0
	Moderate	5	8.3
	Low	3	5.0
	Do not know	40	66.7

Characteristic	Response category	F (n=60)	%
Observing Islamic accounting and auditing standards	High	15	25.0
	Moderate	3	5.0
	Low	2	3.3
	Do not know	40	66.7
Perceive Islamic banks make ethical investments	Yes	13	21.7
	No	4	6.7
	Do not know	43	71.6

Source: Field data

Selection of customers according to Islamic principles

To determine the selection of customers in accordance with Islamic principles, the variables investigated in this study included, customers' understanding of the permissibility of interest rates, customers' awareness of interest-free banking services, comparison between Islamic banking and other conventional banks in terms of costs, reasons for customers to select Islamic banking, and whether the customers' behaviour are in line with Islamic principles.

For customers' understanding of the permissibility of the interest rates, this study aimed at assessing the fundamental principle of the Islamic banking to determine whether the customers understand it. As one of the fundamental principles, customers are required to observe and comply with that principle. In this regard, customers are required to understand that it is *haraam* to receive or charge interest in Islam. The results presented in Table 2 show that about 42 percent of the respondents understand the issue of the permissibility of interest, whereas about 58 percent do not understand the issue, hence indicating that the majority are still not aware about the nature of Islamic services in an Islamic bank. In case of customers' awareness of the interest-free banking services offered by the banks, the majority of the respondents (about 55%) were not aware whereas 33 percent only had low awareness. Customers with moderate to high awareness comprised only 12 percent of the respondents. We also assessed the customers' efforts to differentiate between Islamic banks and conventional banks using the costs of services rendered. Responding, the majority of the customers (about 82%) did not know whether there is a difference between conventional and Islamic banking in terms of costs of the services offered. Only 18 percent considered that services offered by conventional banks are more expensive

than those offered by Islamic banks.

In addition, this study assessed the reasons behind the customers' joining the Islamic banks. Although the majority of the customers (about 33%) of these banks did not specifically opt for them for Islamic services, a good number of the customers (about 27%) joined them for religious reasons. Another18 percent of the respondents indicated that they joined the banks because of their cheaper services, eight percent cited ethical reasons, about seven percent indicated friends' influence and five percent indicated that they joined the banks for convenience purposes. However, the number of those selecting Islamic banks for religious purpose is comparatively smaller as the banks require such customers to comply with Sharia banking requirements.

Finally, the study investigated whether the customers' behaviour are in line with Islamic principles. To achieve this objective, the study assessed the type of business the customers are engaged in. For permissible businesses, transportation (about 87.5%), construction (85%) and hotel businesses (82.5%) were highly practiced. Other business such as chicken business, beef business, stationery business and hospital ranged between 60 percent and 77 percent. For businesses not permissible under Islam, only pork business (0%) was not practised. On the other hand, uncertainty and gambling (*Gharar and Maysir*) was practiced by 20 percent and beer business by 62.5 percent of the respondents, hence contravening one of the tenets of Islamic banking under Sharia.

Table 2: Issues relating to Islamic bank customer selection

Characteristic	Response category	F(n=60)	%
Customers understanding on permissibility of interests	Yes	25	41.7
	No	35	58.3
Customers' awareness of interest-free banking services	High	1	1.7
	Moderate	6	10.0
	Low	20	33.3
	Do not know	33	55.0
Comparisons on whether Islamic banking services are more expensive than conventional banks	Yes	11	18.3
	No	49	81.7
Reasons for selecting Islamic banking	Religious	16	26.7
	Cheap banking services	11	18.3
	Convenient bank location	3	5.0
	Friends	4	6.7
	Ethics	5	8.3
	Other	1	1.7
	Do not know (not selected)	20	33.3

Characteristic	Response category		F(n=60)	%
Customers' behaviour in line with Islamic principles	Engaging in contractual uncertainty and gambling	Yes	8	20.0
		No	32	80.0
	Engaging in transportation business	Yes	35	87.5
		No	5	12.5
	Engaging in construction business	Yes	34	85.0
		No	6	15.5
	Engaging in chicken business	Yes	31	77.5
		No	9	22.5
	Engaging in beef business	Yes	29	72.5
		No	11	27.5
	Engaging in pork business	Yes	0	00.0
		No	40	100.0
	Engaging in Hotel business	Yes	33	82.5
		No	7	17.5
	Engaging in Beer business	Yes	25	62.5
		No	15	37.5
	Engaging in Stationery business	Yes	27	67.5
		No	13	32.5
	Engaging in Hospital business	Yes	24	60.0
		No	16	40.0

Structuring of conventional banks to follow Islamic principles

For the criterion of structuring banks to follow Islamic principles, three variables were employed in this study: separation of Islamic funds from conventional funds, disclosure of information on revenues generated by the bank to depositors (i.e. investors) and ensuring that the employees' behaviour are in line with Islamic principles. The results presented in Table 3 show that the majority of the respondents (about 67%) did not know whether there is separation between Islamic and conventional funds or not. The respondents who rated the separation of Islamic funds from conventional funds as moderate to high were about 27 percent and those who rated the banks on this parameter as low were only 6.7 percent.

However, during interviews with officials from these banks on implementing Islamic banking it emerged that the banks did not open accounts in the Islamic banking window for individuals and companies dealing with cigarettes, alcohol and gambling business. In this regard, the banks managed to segregate Islamic and conventional funds. It was further noted that the funds collected from the Islamic banking window were coded differently from the conventional fund. The banks then deposited the Islamic funds with the country's central bank (Bank of Tanzania –BoT) in its non-interest account. When the funds are requested for loans, the banks withdraw them from the BoT. It was stated that the circulation of Islamic funds is traced and controlled separately with special codes from that of conventional funds. In the case of

information disclosure to depositors (i.e. investors), only 11.7 percent considered that the banks under study were disclosing adequate information. A significant 21.6 percent believed that the banks were not disclosing information. Nevertheless, the majority of the respondents (around 67%) indicated that they did not know whether their banks were making adequate disclosure or not.

To determine whether the bank employees' behaviours were consistent with Islamic principles, their capabilities, possession of adequate information and compliance with Sharia laws were assessed. The results presented in Table 3 reveal that the majority of employees (around 70%) were considered to possess capabilities to handle Islamic transactions; the remaining only 30 percent were considered not to have such capabilities. On the aspect of having adequate information on Islamic finances, the majority (90%) of the respondents indicated that they had adequate information with only 10 percent indicating otherwise. Finally, all the responding employees (100%) indicated that they complied with Sharia laws when conducting Islamic transactions.

Table 3: Issues relating to structuring of Islamic banks

Characteristic	Response category		F(n=60)	%
Separation of Islamic and convention funds	High		7	11.6
	Moderate		9	15.0
	Low		4	6.7
	Do not know		40	66.7
Full disclosure of financial information by the Banks to depositors	Yes		7	11.7
	No		13	21.6
	Do not know		40	66.7
Employees' behaviour in line with Islamic principles	Capabilities	Yes	14	70.0
		No	6	30.0
	Adequate information	Yes	18	90.0
		No	2	10.0
	Comply with Sharia	Yes	20	100.0
		No	0	0.0

Source: Field data

Competence of Sharia Supervisory Board (SSB)

To determine the competence of the Sharia Supervisory Board, we assessed the members' knowledge on Islamic jurisprudence and Islamic finance as well as their experience in handling Islamic financial issues. According to the results presented in Table 4, the majority (65%) of the respondents indicate that the SSB members lacked knowledge on Islamic Jurisprudence with only 35 percent indicating otherwise. On the other hand, the majority of the members (80%) indicated to have adequate knowledge on Islamic finance/transactions with only 20 percent indicating otherwise. On the issue of experience with handling Islamic financial issues, the third dimension of determining the competence of the SSB, the majority of the members (55%) had experience of between two and five years. These were followed by those with one year and less (40%) experience. Only five percent of the members were considered to have more than five years of experience in handling Islamic financial matters.

Table 4: Issues relating to Competence of Sharia Supervisory Board

Characteristic	Response category		F(n=20)	%
Competence of Sharia Supervisory Boards	Members' knowledge on Islamic Jurisprudence	Yes	7	35.0
		No	13	65.0
	Members' knowledge on Islamic finance	Yes	16	80.0
		No	4	20.0
	Members' experience	< 1 year	8	40.0
		2 – 5 years	11	55.0
		> 5 years	1	5.0

Source: Field data

Discussion Of The Findings

This study investigated the criteria used to distinguish Islamic from conventional banks in Tanzania. To achieve the study's research objective, a number of features were grouped into four criteria: (i) compliance with Islamic principles of finance; (ii) selection of banks' customers according to Islamic principles; (iii) structuring of conventional banks to follow Islamic principles; and (iv) competence of SSB. These features were used to determine the extent to which the Islamic banks operating in Tanzania were Sharia-compliant.

Compliance with Islamic principles of finance

On the issue of compliance with Islamic principles of finance, the findings reveal that the majority of the respondents only exhibit limited knowledge on whether the Islamic

banks comply with Sharia finance, observe Islamic accounting and auditing standards as well as make ethical investments in accordance with Islamic values. Such limited knowledge on these salient issues relating to Islamic banking may be due to limited understanding of Islamic finance and nascent nature of the sector in Tanzania. Taking these issues on individual basis, the results indicate that on the compliance with Sharia principles of finance and observation of Islamic accounting and auditing standards the compliance is about 33 percent (ranging from low to high). Whereas there is no benchmark for the compliance level and observation of the Islamic accounting and auditing standards, it might be argued that at least one-third of the products are considered to comply with Islamic principles of finance. This level of compliance can easily distinguish Islamic banking services from conventional banking services. The findings are partly consistent with the findings of the study conducted by Marimuthu, et al. (2010) as well as Khan (2010). On the other hand, when it comes to ethical investment, less than a quarter of the respondents indicated that Islamic banks were making ethical investments in accordance with Islamic principles, which is contrary to expectations for such Islamic banking institutions. The results indicate that the majority of the respondents did not believe that the investments of the Islamic banks were based on the Islamic values and morals. One distinction between conventional and Islamic banks which was considered in this study is the way in which the former may make their investments distinctive by investing only in businesses which are not prohibited by Islamic ethical and moral values.

However, the findings in this study do not show that ethical investment done by Islamic banks can be differentiated from those of conventional banks, hence implying that the conventional banks which have adopted Islamic banking are considered not to have adequately adjusted their investment procedures to reflect Islamic principles. These findings are not consistent with studies such as Ariss (2010) and Buksh (2006) which emphasise that investment of Islamic banks has to be steeped in religious foundation. The findings nevertheless are consistent with a number of studies which found that banking services offered by Islamic banks could not be differentiated with those offered by conventional banks (Bjorvatn, 1998; Chong and Liu, 2009; El-Hawary, et al., 2007). These studies contend that Islamic banks are using the Islamic approach to gain advantages over their competitors by becoming more competitive through offering services based on religious financial discipline despite the investment procedures remaining similar to those for conventional banks. Bjorvatn (1998) as well as Chong and Liu (2009) attribute the rapid growth of Islamic banking to the worldwide Islamic resurgence which started in 1960s. Chong and Liu (2009) further contends that lack of clear differences between the investment procedures of Islamic banks and conventional banks procedures stem from the fact that investment procedures in Islamic banking are closely pegged to practices of conventional banks.

Selection of customers according to Islamic principles

In case of selection of customers for Islamic banks, the preliminary assumption of the study was that banks which provide Islamic banking services will screen their customers to ensure that they serve clients who would not violate Islamic principles. Consistent with the argument presented by Chong and Liu (2009) to the effect that Islamic banks have to monitor their customers and ensure truthful reporting, the study used five issues to determine whether this was the case with the banks under study in Tanzania. These five issues were: the understanding of the permissibility of interest; awareness of interest-free banking; comparison of the differential costs of services between Islamic and conventional banks; reasons for selecting Islamic banking services; and the customers' behaviour. The two issues—customers' understanding of the permissibility of interest and awareness of interest-free banking services—attracted a good number of respondents even though they did not constitute the majority. The likely reason for this response could be based on the widely advertised interest-free services. Nevertheless, these results are consistent with the argument provided by Bjorvatn (1998) that the ban on interest has attracted greater attention to Islamic banking facilities. In fact, the issue of the ban on interest appears to be the only issue for which, to some degree, there is consensus among Muslim scholars with regard to Islamic banking. In addition, the results are consistent with the results reported by Gerrard and Cunningham (1997) which found that awareness of Islamic banks' customers towards Islamic banking services is high for fundamental Islamic finance principles but low for specific Islamic finance products.

However, the results are not consistent with those of Thambiah, et al.'s (2011) study, which found that understanding of Riba ranged between 31 percent in rural areas and 35.5 percent in urban areas. The results of this current study, on the other hand, show that those understanding issues of interest permissibility and awareness of interest-free banking is greater than the results reported by Thambiah, et al. (2011). There are three likely reasons for these different results. First, this study was conducted in urban areas which Thambiah, et al.'s (2011) study also found to exhibit greater understanding than rural areas. Second, the sample size of this study was small, hence raising the likelihood of limiting the extent to which the results are generalisable to a bigger area. Finally, the predominance and broad advertisements concerning the ban of interest may have increased level of awareness of the Islamic bank services.

On the issue of differential costs of the Islamic and conventional bank services, the majority of the respondents did not consider Islamic banks to be more expensive than conventional banks. These results are consistent with various advocates of Islamic banking who consider Islamic banks to be more advantageous than conventional banks (Chong and Liu, 2009). However, this study's findings are not consistent with Khattak and Ur-Rehman's (2010) study which found that in terms of costs of services between

Islamic banks and conventional banks, the majority were not satisfied with the costs (In other words, the majority found Islamic banks to be more expensive than conventional banks). Furthermore, the results in this study are not consistent with the findings from the study conducted by Metawa and Almossawi (1998) which found that most of the customers of Islamic banks were dissatisfied with the high cost of the services charged by Islamic banks. The results from this study may be different from previous studies because few respondents understand the Islamic banking operations and their implications.

On the issue concerning the reasons for selecting Islamic banking services, the religion factor was found to rank the highest even though it did not account for the majority of the responses, hence confirming results from previous studies (see Khan, et al., 2010; Khattak and Ur-Rehman, 2010; Khoirunissa, 2003) which found that religion is critical factor behind Islamic banking selection. However, the results are not consistent with that of Erol and El-Bdour (1989) which found that religion is not critical factor in the selection of Islamic banking services by clients.

Finally, on the issue of the customers' behaviour, the aim of the study was to investigate whether the clients served by the Islamic banks engaged in businesses that are not banned by Sharia. The expectation of this study here was that for Islamic banks to be different from conventional banks, they should have more Sharia loyalists or those inclined to abide by Sharia than floating segment. However, the results of the study indicate that out of the three business engagements which are banned by Sharia, Islamic banking customers only desisted from engaging in pork business. In addition, the number of those participating in contractual uncertainty and gambling as well as alcohol businesses was found to be bigger than one would anticipate since these businesses are non-Sharia compliant. This indicates that many of the customers in Islamic banks operating in Tanzania are formed largely by floating segment and not necessarily by Sharia loyalists. It, therefore, likely that the pressure exerted on Islamic banks to be Sharia-compliant will be minimal because the level of religious commitment remains largely low. In such a way the difference between Islamic banks and conventional banks will not be exhibited that distinctively.

Structuring of conventional banks to follow Islamic principles

To establish whether conventional banks are structured to follow Islamic principles, three issues were investigated in this study: separation of Islamic funds from conventional funds; full disclosure of financial information by the banks to depositors; and employees' behaviour in line with Islamic principles. On the issue of separating Islamic funds from conventional funds, the majority of the respondents did not know whether the banks were separating the funds or not. Likewise, on the issue of full disclosure of financial information, the majority did not know whether the banks were

making full disclosure of financial information.

These results indicate that, although Islamic banks' customers may be aware of the general concept of Islamic banking, few of them understand specific issues and underlying principles of Islamic banking. These results are consistent with the findings by Gerrard and Cunningham (1997) which found that there is low understanding of specific Islamic products among Islamic banking customers. One possible reason for this low understanding could be the less information that has been distributed to the existing and potential customers on the technical aspects of Islamic banking including accounting issues despite the banks taking several efforts to educate the employees about Islamic banking. During interviews with some bank officials, it was established that the banks were clearly separating Islamic funds from conventional funds. This separation of Islamic from conventional funds is consistent with the results by Olson and Zoubi (2008) which indicate that accounting information can distinguish Islamic from conventional banks.

However, on the issue of full disclosure the results confirm the challenges identified by Tahir (2003) that Islamic banks are not disclosing adequate information. In addition, the findings are consistent with the findings by Chong and Liu (2009), Farook, et al. (2011) and Hasan (2010) who found that Islamic banks are failing to fulfil the obligation of adequate disclosure of financial information to the depositors and shareholders. On the other hand, the results are not consistent with the findings of the studies conducted by Sundararajan (2005), and Olson and Zoubi (2008) which found that the disclosure obligation is not adequately met by Islamic banks. Here it can be argued that Islamic banks are not different from conventional banks as far as asymmetric information is concerned (Algaoud and Lewis, 2001). On the other hand, employees are seen to possess adequate capabilities to handle Islamic transactions and comply with Sharia principles. The reason for this could be the efforts made by the banks to educate and train their employees on Islamic banking. This reason is consistent with the findings of Abdullah and Rahman (2007) which found that training and education are significant factors in enhancing employees' knowledge on Islamic banking.

Competence of Sharia Supervisory Board (SSB)

The final distinguishing feature used to investigate Islamic banking in Tanzania was the presence of competent SSB. It was found both banks under study have SSB in place, hence complying with Sharia finance principles which require banks operating Islamic banking to have an SSB. These findings are consistent with Marimuthu, et al.'s (2010) study, which found that the presence of the SSB was a crucial factor for Islamic banking operations. The functioning of the SSB in this study was examined by considering the knowledge of the SSB members and their experience in handling Islamic finance. The results indicate that the majority of the SSB members have

knowledge on Islamic finance but only a few had ample knowledge on Islamic jurisprudence. One plausible explanation of these results could be the SSB members' exposure to training. It might be that the banks, once they appoint SSB members, expose them to training seminars to learn about Islamic banking and finance in general. Another plausible explanation could be that the pool from which the banks draw SSB members is composed largely of the floating segment naturally with limited understanding of Islamic jurisprudence.

With regard to the experience of SSB members on Islamic finance matters, the results show that the majority of the members have less than five years of such experience. This indicates that the SSB members generally had limited experience, which in turn may reduce their pressure on the Islamic banks to comply with Sharia principles. As such, the difference between Islamic banks and conventional banks may be blurred. One reason for limited experience possessed by the SSB members is that Islamic banking in Tanzania is a recent phenomenon as such banking had only been introduced recently, and hence few people have exposure to it. These results partly may confirm the fears that were raised by Khan (2010) that Islamic scholars who are not competent or were simply rent-seekers might be used by managers to foster their own interests.

Conclusion And Implications

The empirical results of this study indicate that, on the one hand, there are mixed results with some features distinguishing Islamic banks from conventional banks, on the other hand, there are some features which do not. Features which can distinguish Islamic banks from conventional banks, on the basis of empirical results include issues such as observing Islamic accounting and auditing standards, customers' understanding of the interest of permissibility, awareness of interest-free banking, the separation of Islamic funds from conventional funds, and ensuring that bank employees' behaviour are in line with Islamic principles. Conversely, features such as general compliance with Sharia, ethical investment, reasons for selecting Islamic banks, customers' behaviour, and full disclosure of financial information as well as competence of SSB are features which do not distinguish Islamic from conventional banks. The results from this study imply that operational characteristics of the two types of banks (Islamic and conventional) are not essentially different. Generally, Islamic banks seem to be similar to conventional banks but probably with some degree of difference. As such, if Islamic banks, indeed, want to distinguish themselves from conventional banks, they may need to exert or direct more efforts towards complying with Sharia principles, screening their customers to ensure that they are made up largely of Sharia loyalists rather than the floating segment, providing full information and enhancing the capacity of SSB members. In response, regulatory authorities may need to impose Sharia-specific regulations to protect depositors as well as ensure that Islamic banks abide by these regulations.

The limitations of this study include the following. First, this study used only conventional banks which have introduced Islamic banking window in Tanzania. However, as more full-fledged Islamic banks are becoming popular, future research could incorporate these banks. Second, this study is just a descriptive one, and hence inferential statistics were not conducted. This approach has its limitations; however, it was found that given the infancy of the Islamic banking industry in Tanzania an exploratory study was still significant. Future research, therefore, may also incorporate

(Endnotes)

5 AAOIFI, which was formerly known as the Financial Accounting Organisation for Islamic Banks and Financial Institutions, was established in 1991 in the State of Bahrain. Its establishment followed the agreement signed by Islamic Financial Institutions in 1990. The main objectives of AAOIFI include developing accounting and auditing thoughts relevant to Islamic financial institutions; disseminating Islamic accounting and auditing thoughts relevant to Islamic financial institutions; preparing, promulgating and interpreting Islamic accounting standards as well as reviewing and amending Islamic accounting standards. Structure-wise, the AAOIFI is composed of the general assembly, board of trustees, accounting and auditing standards board, auditing and governance committees and AAOIFI Sharia Board. Available at: www.aaoifi.com.

statistical tests to assess the significance of each variable and criterion. Finally, it would be interesting to examine whether the separation of funds and disclosure requirements, as presented in this study, could influence the type of accounting information system used by Islamic banks or follow the AAOIFI or the IFRS standards. Furthermore, it would be interesting to assess how the Islamic features identified influence the effectiveness of Islamic banks in Tanzania.

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