

**Non-Shariah Compliant Income Sources, Treatment, And Its Impact On Customers
Trust And Commitment of Pakistan Islamic Banks: A Qualitative Approach**

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ABSTRACT

Islamic banking is a contemporary concept in the modern world, finding many solutions to the problems of the modern economic system. Shari'ah law is the backbone of this system which the philosophy of the system is derived from the Quran and the Sunnah of Prophet Muhammad SAW. Islamic banks offer Shari'ah-compliant products to Muslims which is an essential element to gain acceptance among Muslims and maintain the confidence of all stakeholders and the general public especially related to Halal products. This study used Atlas ti 9 a qualitative a software used to analyse the qualitative data to answer the three questions of the research related to non-shariah compliance income using a qualitative approach via six in-depth interviews from top management and shariah scholars. The findings of qualitative phenomena revealed 18 sources of non-shariah complaint income, besides there was a

difference of opinion among Shariah scholars and top management regarding the disclosure of sources of non-shariah compliant income to the customers.

Keywords: Non-shari'ah compliant Income, Sources, Treatment, Impact, Customers, Islamic banks,

INTRODUCTION

In Islamic Banking, every transaction must be made in compliance with shariah. Cheong (2021) opined that requirement of shariah compliance present unique conditions for examining firm performance. According to Kasim, Ali, and Arshad (2021) in most Islamic banks, non-shariah compliant income is accepted, which leads to dissatisfaction among account holders. there is a mismatch of objectives, or the role of management and scholar is not fully defined. The unlawful income is a real threat to Islamic financial system, and it is a matter of fact that due to this non-shari'ah compliant income (NSCI), there is no difference between Islamic and conventional banks.

“Shari’ah non-compliant income (SNCI) is income generated or received from events that are non-compliant to Shariah rules and principles; for example, income derived from Shariah non-compliant business and profit charges from transactions with invalid Shariah contracts”

(Standard Chartered, 2018, p 189)

There is a lack of data available about the sources of NSCI. This study has three objectives First objective is to identify the sources of Islamic banking activities that lead to NSCI. Second is the treatments of NSCI and third is to explore the impacts of NSCI on customer trust and commitment toward the bank services from the top management of bank perspective.

LITERATURE REVIEW

Technically, Islamic organizations or Islamic businesses generate incomes from several sources or events representing their profits. However, such income generation processes can at times fail to adhere to the Shariah rules and principles (Djibrilla, Buang, & Olayemi, 2017). According to the established business legislations, the income from activities that do not comply with the Shariah regulations is known as NSCI (Puneri, Chora, Ilhamiddin, & Benraheem, 2020). An excellent example comprises an income generated from business events that do not adhere to Shariah rules profits accrued from transactions with invalid Shariah contracts. Often, the jurists identify the invalid Shariah contracts as *bāṭil* or *fāsid*. However, differentiating the two terms is still challenging (Puneri et al., 2020).

In simple terms, *bāṭil* stands for null and void. In this regard, any contract that does not meet the fundamental requirements of a contract is known as *bāṭil* or *fāsid*. The provisions in the Shariah rules regard an invalid contract as one without any legal implications (Mohamed, Abdul Rahim, & Ma'aram, 2020). As such, the parties must re-execute the contract if they wish to proceed. Although most jurists fail to distinguish the two terms (*batil* and *fasid*), the *Ḥanafī* jurists did it, focusing on the ruling and legal effect. These jurists' argument is based on the fact that a defect in a contract results from a fundamental aspect (*aṣl*) or an accessory attribute (*waṣf*) (Puneri et al., 2020).

According to the (Puneri et al., 2020) an issue in a primary aspect of a contract makes it void and non-rectifiable. On the other hand, a problem in the external element only renders the contract irregular (*fāsid*). Besides, before going further in understanding the *bāṭil* and *fāsid* contracts, it is vital to know that particular financial institutions tend to distinguish between Shariah Non-Compliance and impure incomes. While the latter comprise the interest incomes companies recognize in the accounts, gains generated from financial investments, and business sources that do not comply with the Shariah

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regulations, the former entails incomes realized from Shariah Non-Compliant activities (Abror, Patrisia, Engriani, Idris, & Dastgir, 2021).

Islamic banks have a unique mix of risks, including equity investment risk and displacement commercial risk, with SNC being one of the most critical (Khokhar, Laghari, & Lakhani, 2019). Shari'ah non-compliance risk emphasizes the possibility of failing to meet standards or satisfy shari'ah principles as stipulated in the applicable jurisdiction's standards and commonly recognized worldwide shari'ah standards. The management of these risks is critical since an Islamic bank's failure to comply with shari'ah might jeopardize its long-term viability and reputation (Mohamed et al., 2020). Islamic banks have improved the quality of their disclosures as a result of these risks, as well as increased regulatory requirements to boost accountability and transparency. According to van Esterik-Plasmeijer and van Raaij (2017) greater transparency in these areas is critical for customers of financial information, such as investment account holders, shareholders, regulators, and the general public. Furthermore, providing transparency and complete disclosure of NSCI is an important Shari'ah risk management function (Puneri et al., 2020).

It cannot be denied that Islamic financial system is not totally free from non-shariah compliant transactions. Hussain and Dusuki (2013) argue that the issue has not been resolved. For example, an Islamic bank charges an additional processing fees to its customer. Thus, fee is imposed on parties who take the possession of good purchased. Hence non – shariah compliant events also occur within Islamic financial environment (Ali et al., 2013). On the other hand, some financial reports show that non-shariah transactions occur owing to unpredictable reasons e.g., system failure or human error.

Ullah, Harwood, and Jamali (2018) have opinion that non-shariah compliant income must be channeled to charity. Furthermore, any income received from any impermissible source must be purified. Purification is mandatory for all activities which are against shariah. Scholars argue that it is better to spend such income in charity rather than utilizing it, or ignoring it (Ullah et al., 2018). The concept of charity is highly recommended in Islam as Quran says”

“Take Sadaqah (ALMS) from their wealth in order to purify them and sanctify them with it and invoke Allah for them. Verily! Your invocations are a source of security for them, and Allah is All-Hearer, All-Knower.”

Sūrat L-Tawbah, Verse (9:103)

Furthermore, Charity is considered to be best way of purifying wealth. An incidence is narrated by Qais ibn Abu Gharazah:

“One day during the life of prophet (PBUH) when we were traders, The prophet passed by us and named us by a good name and said : O you traders, indeed inaccurate speaking and promise do accompany trade, so counterbalance it by giving charities.”

There is always an argument whether products and service is Shariah compliant or not (Ullah et al., 2018). It is vital for Islamic finance institutions to gain approval from Shariah supervisory board before launching any product. It must also be essential for bank to understand that Shariah compliance is a continuous process (Khokhar et al., 2019; Mahmood, Khan, Mehmood, & Khan, 2014). However, it is a difficult process and if any product fails to get approval, “it can adversely affect a bank’s solvency by converting an asset into a liability on the balance sheet”. Shariah outlines a number of principles for finance. The main goal is public welfare and social justice (Dusuki & Abozaid, 2007). Islam allows capitalism and does not restrict profit maximization, yet it restricts unlawful means such as gambling,

tobacco, pornography, speculation etc.(Usmani, 2002). The main aim of maintaining justice and social equality (Usmani, 2002).

The basic principle on which Islamic finance is standing is a set of prohibitions. These prohibitions are as follows. First of all, the most fundamental concept is the prohibition of riba (Interest). The literal meaning of riba is excess. In technical meaning it refers to extra money paid (or received) for borrowed (or lent) money (Khan & Ahmed, 2001). Islamic finance researchers have views that riba is responsible for unequal distribution of wealth by keeping lender safe from risks associated with investment. It also oppresses the borrower because all the risk is shifted towards him (Sultan, 2007; Usmani, 2002). Hence, shariah scholars don't permit Islamic banks to make any transaction involving riba (NSCI). Riba leads to imbalance distribution of wealth and concentration of wealth in a few hands.

RESEARCH METHODS

In this study, the primary data was collected through interviews with the top management of the Islamic banks and Shari'ah scholars. Interviews was recorded to ensure the accurateness of information (Elmendorf & Luloff, 2001). The collected data was undertaken to interpret the information. Zikmund (2003) pointed out that, the target respondent refers to the specific concerned group relevant to the research area. In this study, the target respondents for the study will be the top management and Shari'ah scholars of Islamic banks. In terms of sampling technique, the study will be based on purposive sampling technique as random sampling will not appropriate for this study. There is no specific (min or max) number regarding how many interviews are needed to conduct research guided by the qualitative approach. it depends on the research objectives and settings. Guest, Bunce, and Johnson (2006) suggested at least twelve interviews required as a sample of the respondents, while Polkinghorne (1989) suggested that phenomenologists interview between 5 to 25 individuals who have experienced the circumstances. This study chose the purposive sampling technique. So, for this purpose, for this study six (6) interviews was conducted from the top management and Shari'ah scholars of the Islamic banks. The rules of purposive sampling, the researcher will select the sample based on his own judgment and also, the purposive sampling, in qualitative research allow the researcher to get the maximum variation in the data and to classify cases of interest from the participants (Ahmed, 2008). Following criteria was used for sample selection.

1. The respondent holds top management position in Islamic bank.
2. The respondent will have an experience and knowledgeable in his/her field.

The Shari'ah scholar collaborating with Islamic bank

Primary data was analyzed carefully to address the main research questions. The recorded data of interviews with top management and the Shari'ah scholars of the Islamic banks was recorded manually. Afterward, recorded data was organized for Atlas ti 9 version program which was used for thematic data analysis. Thematic analysis is a method for identifying, analyzing and reporting patterns (themes) within data.

FINDINGS

Identification of sources of Islamic banking activities that lead to non-Shari'ah income (NSCI) in Islamic banks

In this section findings of the first objective of the current study will be explored. In every Islamic bank, there are chances of the NSCI gain (Puneri et al., 2020). The data analysis identified 2 different codes and one theme based on the identified codes in the research objective. With the help of Atlas ti, these extracted codes and theme were named and then classified in Figure 1.

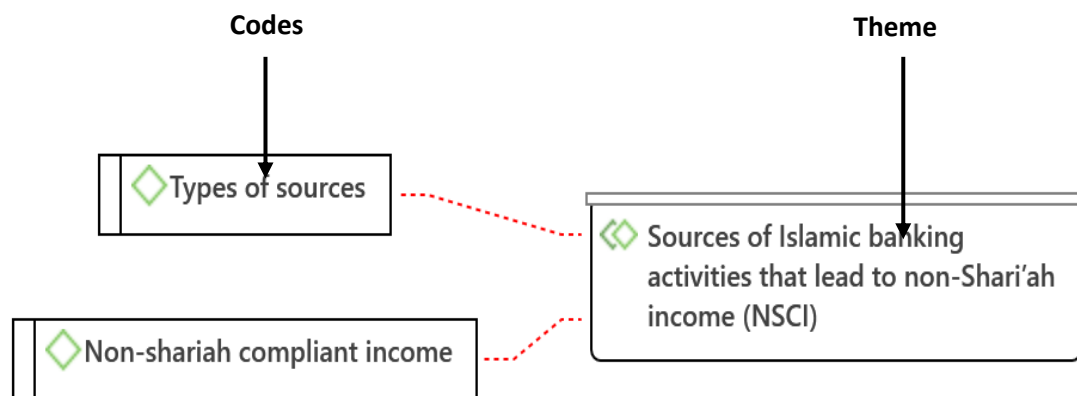


Figure 1. Extract Codes and Themes of RO1 (Generated through Atlas ti.)

Figure 1 concludes the result of the two interview questions of RO1. The two interview questions were:

RQ1.1. What is NSCI?

RQ1.2. How does NSCI exist in Islamic banks?

The above interview questions with the respondent's discussion led to the extraction of Codes and Theme which are discussed below.

Theme 1: Sources of Islamic banking activities that lead to non-Shari'ah income (NSCI)

The first research objective is to know the sources of Islamic banking activities that lead to NSCI. The findings from the in-depth interviews found that to identify the sources of Islamic banking activities that lead to NSCI first needs to identify or need to clarify what is NSCI and what type of sources are of NSCI in Islamic banking.

Non-Shari'ah compliant income.

As per the bank top management and shariah scholars' opinion after the analysis of the in-depth interviews this confirms that the opinion of top management M1, M3 shared similar opinions about NSCI as summarized below:

“.....Any income generated from the sources which are declared as against shariah by the shariah committee is considered as non-shari'ah compliant income....” [M1&M2-2021]

However, the response of M2 was found as bellow:

“.....Income which is derived from non-shari'ah compliant means or from any activities which are against shariah department rulings is considered as non-shari'ah compliant income.....” [M2-2021]

SS1 and SS2 shared the similar opinion as explained below:

“..... Non-Shariah compliant income includes any income which comes from business/source which has been declared as Shariah Non-Compliant/ illegal or is not as the ruling of shariah board” [SS1&SS2-2021]

SS3 opinion about NSCI is explained as:

“.....Non-Shari’ah Compliant income is the income generated through non-compliance means of income or the income earned through compliant mode financing, but there is violation of any Shari’ah principal.....” [SS3-2021]

According to the above-mentioned opinions of experts, it is clear that any income which is derived from any business/activity/transaction which is against the shariah guidelines provided by the SSB is considered as the NSCI. Furthermore, any income which is generated through the compliant mode but during the execution of the contract shari’ah audit team finds out any shari’ah violation also becomes NSCI.

Types of Sources

Based on the in-depth interviews, the researcher found that there are multiple types of sources that can cause the inclusion of NSCI in Islamic banking. Four respondents M3, SS1, SS2, and SS3 shared similar opinions about the types of sources of NSCI which are combined and explained below:

“..... Income from gambling, income from interest-based transactions, income from Gharar based transactions including derivatives, insurance claim reimbursements from conventional companies, penalty charged or late payment for a credit sale, income from casinos, addictive drugs and Alcohol and dividend income from conventional businesses, etc.....” [M3, SS1, SS2&SS3-2021]

However, the response of M1 and M2 was found as follow:

“..... Income from a transaction that is executed against shariah guidelines (void transaction). Investment or financing in a firm involved in shari’ah non-compliant businesses.....” [M1&M2-2021]

SS1 explained further:

“.....Under Islamic Banking and specifically auto finance umbrella, bank and customer are both partners in the financing and any benefit which the bank receives from manufacturer, dealer, insurance or tracker company, the customer is a pro-rata partner. In case, the bank does not share this benefit received from the aforementioned with the customer, the said income is a non-shariah complaint income for the bank.....” [SS1-2021]

It is clear from the in-depth analysis of interviews that there are multiple types of sources that can lead to NSCI in IB’s. There are also chances that Islamic banks are involved in non-shari’ah compliant activities. The findings based on the in-depth interviews showed that almost all the respondents agree on any income which is generated/received from the sources which are against the

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guidelines and rulings set by the Shari'ah committee will be considered as NSCI for Islamic banking [M1, M2, M3SS1, SS2, SS3] .it is very important to have a consensus on the “what is NSCI” among the 2 major parties/pillars of the Islamic banking (Management and Shari'ah scholars) to address the NSCI challenge. It is also very important to know what are the different types of sources which contribute to NSCI. After in-depth interviews with the experts, eighteen (18) different types of sources were identified as shown in the Figure 2 below:

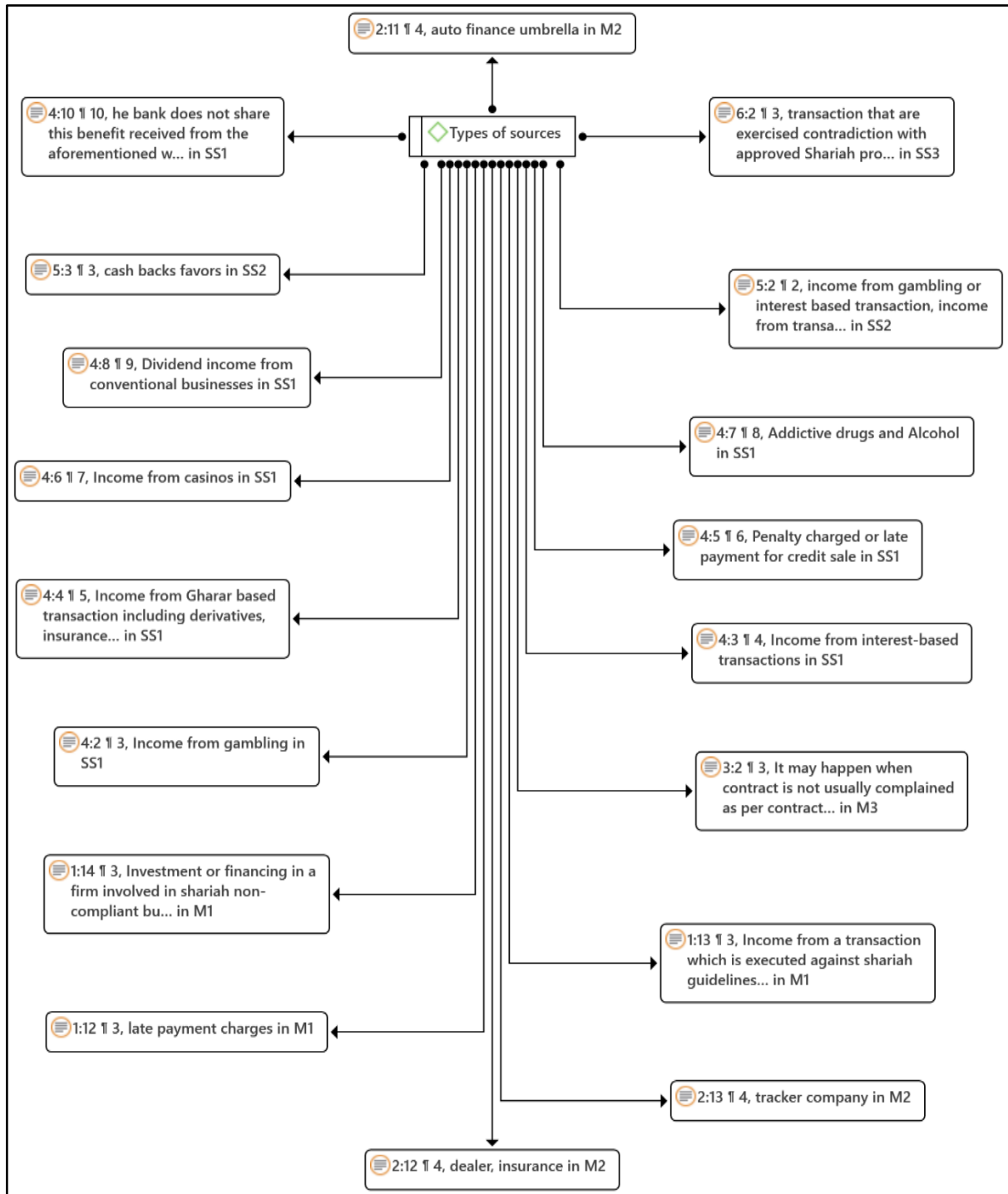


Figure2: Sources of NSCI (Generated through Atlas ti.)

The treatments to address the NSCI

This section presents the findings of the second research objective that is to understand the treatments of (NSCI). After analysis of the in-depth interviews with the help of Atlas ti Three (3) different codes were generated to get one main theme which was named in Figure 3.

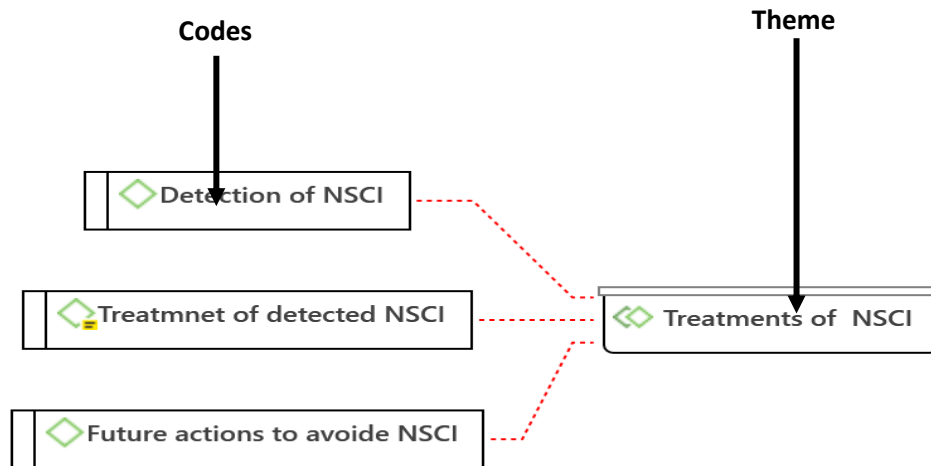


Figure 3: Extract Codes and Themes

Above mentioned figure 3 concludes the result of the three interview questions of RO2. The three interview questions were:

RQ2.1. How does the bank detect non-shari'ah compliant income?

RQ2.2. What is the treatment to non-shari'ah compliant income?

RQ2.3. What is the future action to avoid non-shari'ah compliant income?

The above interview questions with the respondent's discussion led to the extraction of codes and themes related to the treatment of the NSCI which are discussed below.

Theme2: Treatments of NSCI

The second objective is to find the treatments to address the NSCI in the Islamic banks. Based on the data with the help of the atlas ti three codes were extracted which will be explained one by one.

Detection of NSCI (Code)

Based on the in-depth interview's researcher found four respondents M1, M2, M3, and SS3 shared the almost same opinions about the detection of the NSCI as summarized below:

“.....every IFI has a shariah board who is constant hunt of such activities, and this meeting is held quarterly to identify such loopholes and resolve them immediately.....”[M1, M2, M3&SS3-2021]

M1 further explained the process of detection of NSCI as follows:

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“.....Like a transaction was executed wrong like the proper contract is not executed, the bank has done financing in a business which is wrong as per shariah. So, a shariah Audit department highlights all the issues. The same is presented to Shariah Board.....” [M1-2021]

Furthermore, SS1 explained NSCI detection importance as follows:

“.....NSCI is an important issue in Islamic Financial institution’s operations and hence a quarterly exercise is conducted for all the products to keep a proper check and balance. As soon as any such income is detected, it becomes the liability of the relevant product manager and higher-ups to justify such earning.....” [SS1-2021]

SS2 opinion was different from other experts according to the SS1 opinion detection is an ongoing process daily as mentioned below:

“..... Banks detect the non-shariah compliant income through comprehensive monthly reviews of Shariah Audit and Shariah Compliance department.....” [SS2-2021]

Pieces of evidence from the interviews showed that the detection and decision of the NSCI is the responsibility of the shari’ah department. The results of the in-depth interviews also highlighted that detection of the NSCI is a continuous process that can be done every quarter as well as on monthly basis depending on the seriousness of the bank's top management about the shariah compliance level in any Islamic bank. Also, it is found that any NSCI detected during the shari’ah audit becomes the liability of the relevant product manager and related high ups need to give justification for such earnings.

Treatment of detected NSCI (Code)

Based on the in-depth interviews from the top management and Shari’ah scholars code-named “Treatment of detected NSCI” mainly focus on how a detected NSCI is treated. Most of the time it is directly dropped into the charity account as M1, M2, SS1 and SS3 share the same opinion as mentioned below:

“.....income which is declared by shariah audit as not compliant with shariah rulings of shariah board It is donated to charity....” [M1, M2, SS1& SS3-2021]

But M1 also mentioned sometimes NSCI is also shared with customers based on the decision made by the Shari’ah board as mentioned below:

“.....in few cases management transfers it to the customer account as pro-rate after the approval or discussion of the shariah board....” [M1-2021] This opinion also supported by SS2:

“.....as per the customer contribution in the asset, in few cases NSCI distributed between the customer and bank.....” [SS2-2021]

The above responding views mentioned that there are 2 types of treatments Islamic banks do with the NSCI detected after the shariah audit. First is they transfer NSCI directly to charity account which is the most common and popular method used to dispose-off such income or to purify the IB's income. But the second treatment is distributing the NSCI to the customers. This method is not much popular and also banks don't mention this kind of treatment in their annual financial statements.

Future actions to avoid NSCI (Code)

Based on the loopholes and potential weak areas identified during the detection process of NSCI future actions are derived to minimize the inclusion of NSCI in IB's income. M1 shared opinion regarding future actions as follow:

“.....shariah guidelines advised by Shari'ah committee are provided how a transaction to be executed, pre shariah review is conducted, training, list of non-compliant businesses, etc. helps to avoid such instances.....” [M1-2021]

Also, M2 and M3 shared the same opinion:

“.....We collaborate with Sharia department to provides training to all staff to ensure non-sharia compliant income is not generated.....” [M2 & M3-2021]

Shariah committee distributes circular with a proper process:

“.....Shariah team circulate a proper process to deal with any unforeseen non-shariah complaint income meanwhile keeping a check on the process which resulted in such income....” [SS1-2021]

Track Record is also maintained for future consideration.

“.....Keeping a log of all such activities is a top priority for all Islamic banks with a constant reminder to the same sales and product teams.... the bank is required to keep a record.....” [SS1&SS2-2021]

Based on all records and logs of NSCI events IB's top management and shariah department collaborate and develop strong controls and measures to avoid any non-Shari'ah compliance in the future. Shariah scholars/Shariah audit teams' role is very important to provide future recommendations and to provide a process that can help banks to avoid non-shari'ah compliant events/activities. Owing to the respondent's views, the researcher found that treatment of the NSCI is based on multiple stages. The first stage is to find/detect the NSCI. In the detection of NSCI role of the shari'ah audit department is very important. This activity is done on a monthly or quarterly basis as per the bank policy. The second stage is disposal or distribution of NSCI. in this stage two main approaches are used, first if there is any income that is declared by the shari'ah audit department as NSCI after the approval of the shari'ah committee it is transferred to charity account and then from charity account, this income is transferred to authorized charitable institutions. The second approach is there are chances in which the shari'ah committee decides to distribute NSCI between customers and banks at pro-rata. The third stage in the process of the treatments to address the NSCI is future actions to avoid such actions/transactions/activities which lead to NSCI. For that purpose, all the actions/transactions/activities which are detected during shari'ah audit are recorded and, based on that

record, shari'ah committee give their recommendations and process to avoid such events in the future. Also, after an in-depth analysis of interviews, it was found that the daily shari'ah department issues advisories and circulars. Also, bank management provides training and organizes workshops from time to time with the collaboration with shari'ah department.

The impacts of NSCI on customer trust and commitment toward the bank services from the top management and shari'ah scholars of bank perspective

This section presents the findings of the third research objective that is to explore the impacts of NSCI on customer trust and commitment toward the bank services from the top management and shari'ah scholars of bank perspective. During in-depth interviews with the top management and shari'ah scholars of the Islamic bank's researcher observed the role of the third research objective for NSCI impact on customers trust and commitment. After analysis of the in-depth interviews with the help of Atlas ti 4 different codes were generated to get one main theme which were named in Figure 4.

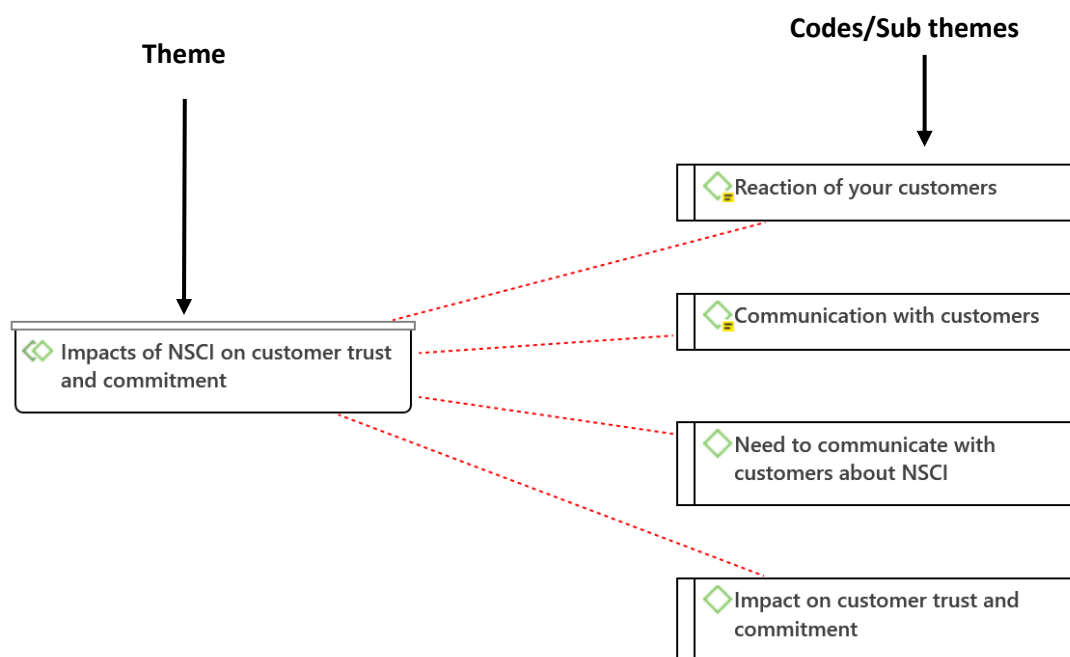


Figure 4: Extracted Codes and Theme

Above mentioned figure 4.5 concludes the result of the four interview questions of RO3. The four interview questions were:

- 3.1. What is the reaction of your customers?
- 3.2. How do you communicate with your customers?
- 3.3. Do you think the non-shari'ah compliant income should be disclosed to the customer?
- 3.4. What is the impact of non-shari'ah compliant income on customer commitment and trust?

The above interview questions with the respondent's discussion led to the extraction of codes and themes related to the impact on trust and commitment of the customers due to NSCI which are discussed below.

Theme 2: Impact of NSCI on customers trust and commitment

Based on the in-depth analysis of interviews researcher developed four codes with the help of Atlas ti and one theme to address the third objective of the study. Extracted codes will be explained one by one below.

Reaction of the customers (Code)

Based on the interviews in-depth analysis research found that there is a difference of opinion between the respondents about the reaction of the customers about NSCI. M1 and M2 gave their opinion as follow:

“.....It does not impact customers. They paid what is supposed to be paid so there is no concern from their side....” [M1&M2-2021]

But M2 explain further in addition to his opinion which was the same as the opinion of M3:

“.....but if they come to know of course the Customers will demand an explanation from Sharia department regarding non-sharia compliant income....” [M2-2021]

But, based on the interviews it was found that the shari’ah department has a different perspective about the reaction of the customers about the NSCI. SS1, SS2, and SS3 give almost the same opinion so the researcher merged it and mentioned below:

“.....Bank does not communicate the non-shari’ah compliant income to the customer, as this is the Bank income and bank give charity at his end. So no reaction from the customers.... off course if the customers know about such kind of activities, their customers reaction will be negatively.....” [SS1, SS2&SS3-2021]

A very interesting fact was found based on shariah department opinion that banks usually do not communicate information related to the NSCI activities happening in Islamic banks which ultimately lead to no reaction from the customers, but all experts agree that if the customers know about such activities they will surely demand an explanation from the management as well as from shari’ah department.

Communication with Customers (Code)

After an in-depth analysis of interviews with top management of the IBs researcher found that banks normally do not communicate with the customers about the NSCI but they only mention in their annual reports without any in-depth information about the number of non-shari’ah compliant transactions or frequency of non-shari’ah compliant activities. As M1 shared opinion as follow:

“.....No communication however it can be disclosed in annual bank accounts and on the website without any in-depth details because bank settle these issues internally.....”[M1-2021]

M2 and M3 share the same kind of opinion as follows:

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“.....We do not share such information right away. We mostly declare non-shari’ah compliant income in our annual reports published on our website from where customers can refer if they need any information.....” [M2&M3-2021]

M3 further said that bank management is responsible to communicate this kind of information and most of the time management decides to not disclose these matters as mentioned below:

“.....it is the responsibility of the Management of the bank to communicate with customers. Management usually do not share this kind of information with customers....” [M3-2021]

In response to the responsibility to communicate with customers SS1 and SS2 shared the same kind of opinion which is merged and mentioned below:

“.....The responsibility to communicate about non shari’ah-compliant activities is on the management. Shari’ah department does not communicate directly with customers.... It’s a need-based activity and bank use different mediums to connect with the customer if needed for example social media, customer care unit, phone-banking unit, emails, etc....” [SS1&SS3-2021]

In addition to the opinions of the above-mentioned experts SS3 stated that the shari’ah audit department can only provide their report about shariah compliance to the top management and they publish it in their bank’s annual reports, as mentioned below:

“..... shari’ah department provide a report about the shari’ah compliance in bank activities and transactions to the top management and through the annual reports of Islamic bank which can be communicated to customers...” [SS3-2021]

As a result of an in-depth analysis of the interviews of the experts, it is concluded that the responsibility to communicate with customers rests on the top management of the bank. It is also clear that the shari’ah department does not directly communicate to the customers about the non-shari’ah compliance matters of the bank. In addition, based on the opinions communicating with the customers about the NSCI is a need-based activity and it depends on the top management decision whether to communicate or not.

Disclosure of NSCI to the customers (Code)

There is a different opinion of the experts about the need to disclose NSCI to the customers. Based on the in-depth analysis of the interview, researcher found that there is a difference of opinion between top management and the shari’ah department. As per the opinion of the top management respondents, there no need to disclose NSCI to the customers until there is a need. Like M1, M2, and M3 shared the same kind of opinion about the disclosure of NSCI to the customers which is as follows:

“.....I do not think customers need to know about it because they are more interested in the profits, their earnings and also disclosure of NSCI activities can cause unnecessary panic to customers Customers are not concerned until they are getting profits.... bank always vigilant and take immediate actions to avoid any activity which is against shari’ah rulings of the shari’ah board.....” [M1, M2&M3-2021]

On the other side, the shariah department's opinion is different than the top management of the banks. As per the opinion of shari'ah scholars to win the trust of the customers, it is important to disclose NSCI. This will increase the trust of the customers in the intentions of the bank to provide **Halal income** to the customers. As it is mentioned by SS1, SS2, and SS3 in their opinion:

“.....Yes. It should be disclosed to the customer to win their trust, so that customer understands that there is no place of non-shari'ah income in the Islamic bank....” [SS1, SS2 & SS3-2021]

Impact of NSCI on trust and commitment of the customers

Based on the analysis of in-depth interviews, it is found that NSCI has a negative impact on the trust and commitment of the customers. As M1 mentioned:

“.....if customers know any activity like this there will be a negative impact on their trust and commitment.....” [M1-2021]

In addition, M1 also mentioned:

“.....Because customers most of the time don't know if any of the non-shari'ah activity happened because that thing we handle internally so usually no impact on customers.....” [M1-2021]

M2 and M3 shared the same opinion as follow:

“.....If customers come to know that Islamic bank is involved in non-shariah compliant activities, this will have an adverse impact on customer trust and commitment.....” [M2&M3-2021]

Islamic banks cannot afford to be involved in NSCI because it can affect bank image adversely. As per the opinion of the shariah department customer's commitment is based on the trust that the bank can provide them an income that is pure and free from all kinds of “non-halal” means. But if customers find out that their bank is continuously involved in activities that are against shariah, this can damage their trust adversely which will ultimately negatively impact the commitment of the customers to the bank. As mentioned by the SS1, SS2, and SS3 in their opinion:

“... Even Islamic bank always pays at most importance to shariah compliance still there are some chances that bank involve in activities/transactions which are against shariah rulings of the shariah board, and it can cause a negative effect on customers to trust on Islamic bank which is definitely not in the favor of the bank....” [SS1, SS2 & SS3-2021]

Furthermore, SS1 mentioned as follow:

“... Unresolved issues will always affect the reputation of the institution...” [SS1-2021]

The third research objective of this study is “To explore the impacts of NSCI on customer commitment toward the bank services from the top management and shariah scholars of bank

perspective.” During in-depth interviews with the top management of the Islamic banks, the researcher observed non-shariah compliant Islamic banks could give rise to negative trust and confidence of customers because it is against the religious principles and teachings. The researcher also observed that there is a difference of opinion between top management and shariah scholars about the disclosure of NSCI with customers. As per the findings of the research, it is the responsibility of the bank management to communicate with customers about the NSCI and its treatment, but bank management does not communicate about that income until it is related to the “late payments”. The banks do not share info about NSCI generated from “void transactions”.

DISCUSSION

The sources of Islamic banking activities that lead to NSCI

According to the results there is consensus between the shari’ah scholars and top management regarding the definition of the NSCI that any income which is generated/received from the sources which are against the guidelines and rulings set by the Shari’ah committee will be considered as NSCI for Islamic banking. This result is in lined with the previous studies where different scholars define NSCI in the similar way (Derigs & Marzban, 2008; Hanefah, Kamaruddin, Salleh, Shafii, & Zakaria, 2020; Nor & Sawari, 2020). There is a robust literature available related to the implementation of shariah governance (Aslam & Haron, 2020; Nomran & Haron, 2020) there was few studies available related to specifically types of sources which lead to NSCI. Results indicated that there are multiple types of sources which can lead to inclusion of NSCI in IB’s income. This study found almost 18 sources which can lead to NSCI in IB’s i.e. benefits received to banker, cash back favours, dividend income from conventional business, income from casinos, income from gharar, income from gambling, investment or financing in firm involved in NSCI, late payment charges, dealer insurance, auto finance umbrella, contradictory transactions against shariah law, interest based transaction, investment of financing in addictive drug or alcohol, involvement of riba, penalty charge for credit sale, contract against shariah law, income from transaction that is against shariah, and income from tracker company.

The treatments of Non-Shari’ah Compliant Income (NSCI).

NSCI events are generally on a case-by-case basis, and they contain documentation, language, and transactions in addition to money exchanges. It might also be caused by audit dysfunction and an inefficient governance structure (Paino et al., 2010; Alam, 2013). Failure to adhere to Shariah governance and to obtain Shariah Committee permission for a certain business, for example, may result in NSCI. Previous studies mainly focused on the income which dropped into the charity account (Lahsasna, 2014; Omar & Hassan, 2019; Reyad, Chinnasamy, Madbouly, & Badawi, 2020). The current study focused on the three main points involved in the treatment of the NSCI.

First step in the treatment of the NSCI is detection of the NSCI. The NSCI detection and decision are the duty of the shari’ah department, according to evidence gathered during the interviews. The findings of the in-depth interviews also revealed that NSCI detection is a continual process that may be carried out every quarter or on a monthly basis, depending on the bank's senior management's commitment to shariah compliance in any Islamic bank. Furthermore, any NSCI discovered during the shari’ah audit becomes the responsibility of the relevant product manager and connected high-ups must justify such revenues. Second most important step is the Treatment of the NSCI which is declared after the audit from the shari’ah department. According to the findings of in-depth interviews, there are two major treatments for the NSCI that has been discovered. The first is that they divert NSCI to a charity

account, which is the most usual and popular option for disposing of such revenue or purifying the IB's income. The second approach, on the other hand, is to distribute the NSCI to the clients. This approach is not widely used, and banks do not disclose this treatment in their annual financial statements. Figure 5 shows the process of Detection and treatment of the NSCI.

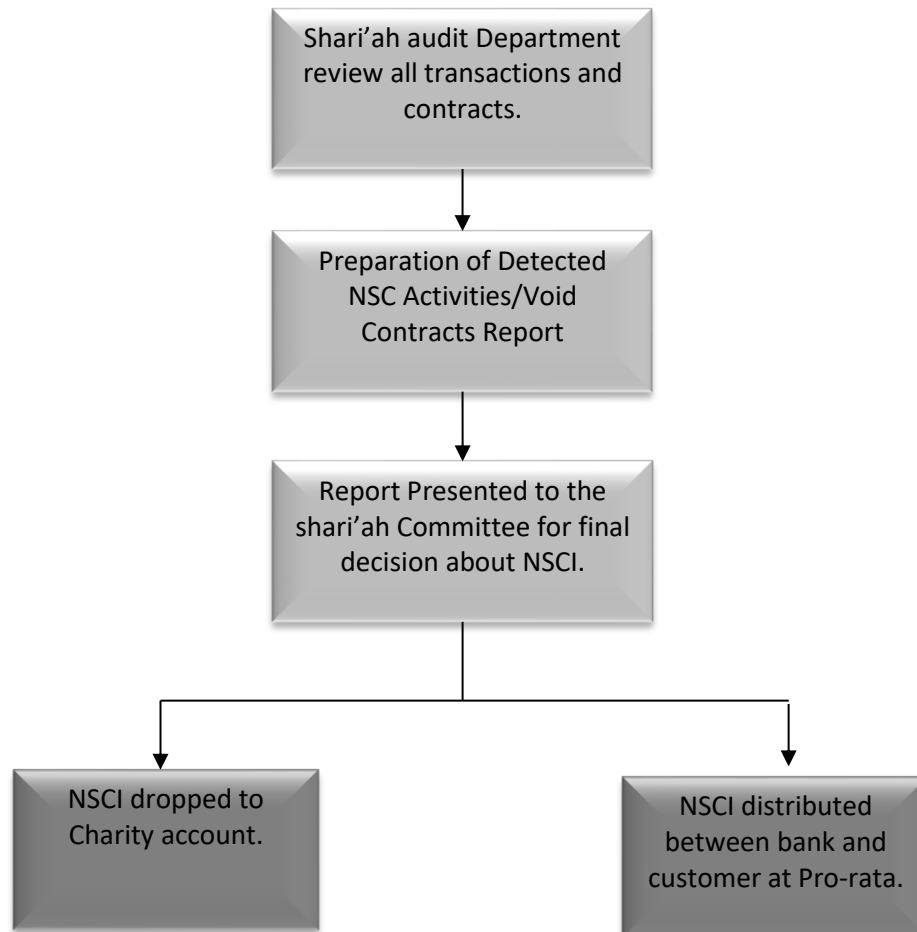


Figure 5. Process of detection and treatment of the NSCI

Finally, after detection and treatment of the NSCI it is very important to draw future action and plan to avoid such events. According to the BNM (2017) after the Shariah Committee has determined that it is the Actual SNC, all operations must be halted immediately, and no other similar business, affair, or activity may be undertaken. According to the analysis of the in-depth interviews of the experts it was found that the daily shari'ah department issues advisories and circulars. Also, bank management provides training and organizes workshops from time to time with the collaboration shari'ah department. Figure 6 shows the process future planning to avoid NSCI.

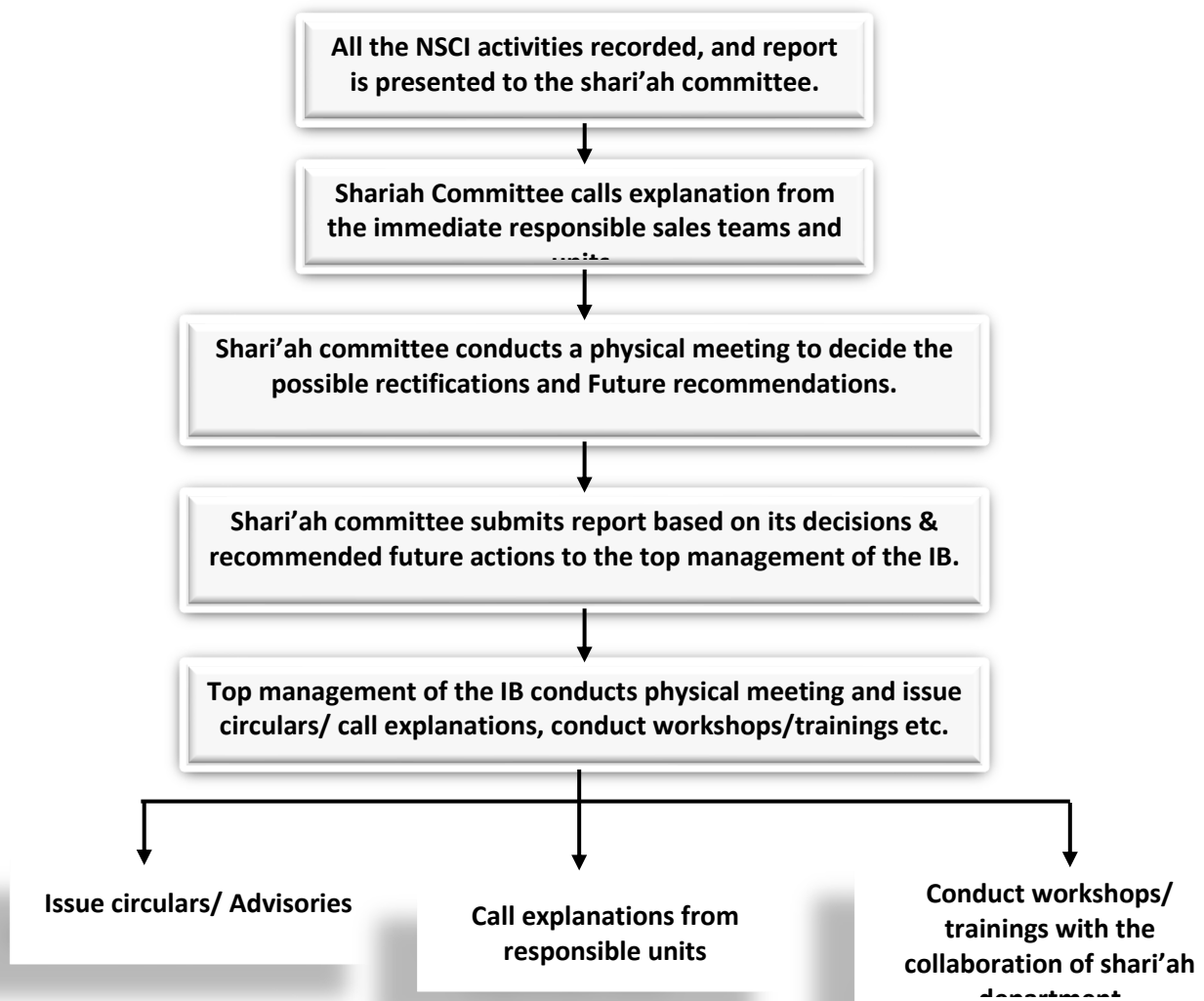


Figure 6: The process of future planning

According to the finding of the current study all the shari'ah department is responsible for the conducting the shari'ah review. Current study also found that business units or, the respective process owners will be responsible for the future planning to avoid NSCI events in the bank operations and transactions.

The impact of NSCI on customer commitment toward the bank services from the top management of bank perspective.

Non-shariah compliant Islamic banks could give rise to negative trust and confidence of customers because it is against the religious principles and teachings. This does not stand connected with the concept of avoiding or refraining from Riba. Fianto, Gan, Widiastuti, and Sukmana (2020) mentioned that consumer behaviours are an evolving phenomenon. This is because the relationships of the organization with others are important to maintain functional levels of performance. Brand image of such banks are influenced negatively, and they do not sustain in terms of religiously inclined customers. This is because they value service quality, which is clearly not maintained if it is a non-shariah compliant bank.

Customers' trust and commitment is greatly influenced by those operations of Islamic Banks that comply with the principles of Shariah. This is due to the fact that Muslim people are encouraged to use services of those specific banks that reflect compliant with Islamic Laws in their operations. Bintoro (2021) has mentioned that Shariah principles address people to embrace humanitarian approaches in their daily doings. Financial information is critical for shareholders and depositors in Islamic banking systems when making investment choices. Non-compliant Shariah income is an indicator for SNCR (Basiruddin & Ahmed, 2017). There is a different opinion of the experts about the need to disclose NSCI to the customers. Based on the in-depth analysis of the interview researcher found that there is a difference of opinion between top management and the shari'ah department. As per the opinion of the top management respondents there is no need to disclose NSCI to the customers until there is a dire need. Despite Shariah noncompliant income disclosure instructions, reports do not offer any "detailed information" about Shariah noncompliant income and its sources (Ali & Hassan, 2019; Oz, Ali, Khokher, & Rosman, 2016; Rosman, Azmi, & Amin, 2017).

CONCLUSION

Conclusion that can be drawn from the six interviews from Islamic bank shariah scholars and top management, almost 18 sources of NSCI were detected. Findings of the interviews also revealed that there is a difference of opinion between top management and shariah scholars about the disclosure of NSCI with customers. As per the findings of the research, it is the responsibility of the bank management to communicate with customers about the NSCI and its treatment, but bank management does not communicate about that income until it is related to the "late payments". The bank does not share information about NSCI generated from "void transactions". In addition to that based on the opinions communicating with the customers about the NSCI is a need-based activity and it depends all on the top management decision whether to communicate or not. The present study also provides theoretical and practical implications that will be beneficial to HR, policymakers of the Islamic banking industry and also to academicians. The study also provided recommendations for future research that would help in gaining trust of the customers in other contexts. The present study is hope for policymakers and HR.

ACKNOWLEDGMENT

This study is funded by Ministry of Higher Education of Malaysia under the FRGS Grant scheme – 203.PMGT.6711696.

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